Arizona State Retirement System Board

US Fixed Income Asset Class

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August 17, 2007

Presentation Topics

Economic Environment

ASRS Fixed Income Asset Class Review (Aggregate)

- Asset Class Snapshot
- Mandates Overview
- Risk/Return Bubble Chart
- Overview Risk Parameters
  - Alpha
  - Information Ratio
  - Peer Review
- Positions
  - Sector Allocation
  - Credit Quality
  - Duration

ASRS Fixed Income Manager Reviews (Individual)

- Qualitative Factors: People, Philosophy, Process
- Performance Analysis
  - Alpha
  - Information Ratio
  - Peer Review
- Positions
  - Sector Allocation
  - Credit Quality
  - Duration

Economic Environment

10 Year Treasury Yield

July 1, 2006 – August 2, 2007

Despite ending FY 2007 only 11 bps lower than the beginning of the fiscal year, rates traded in a range of almost 90 bps throughout the period.

1st half of FY 2007 saw rates move lower on growth concerns and Fed rate cut expectations.

2nd half of FY 2007 brought back inflation concerns, leading to higher rates and a steeper yield curve and in general a flight to quality.

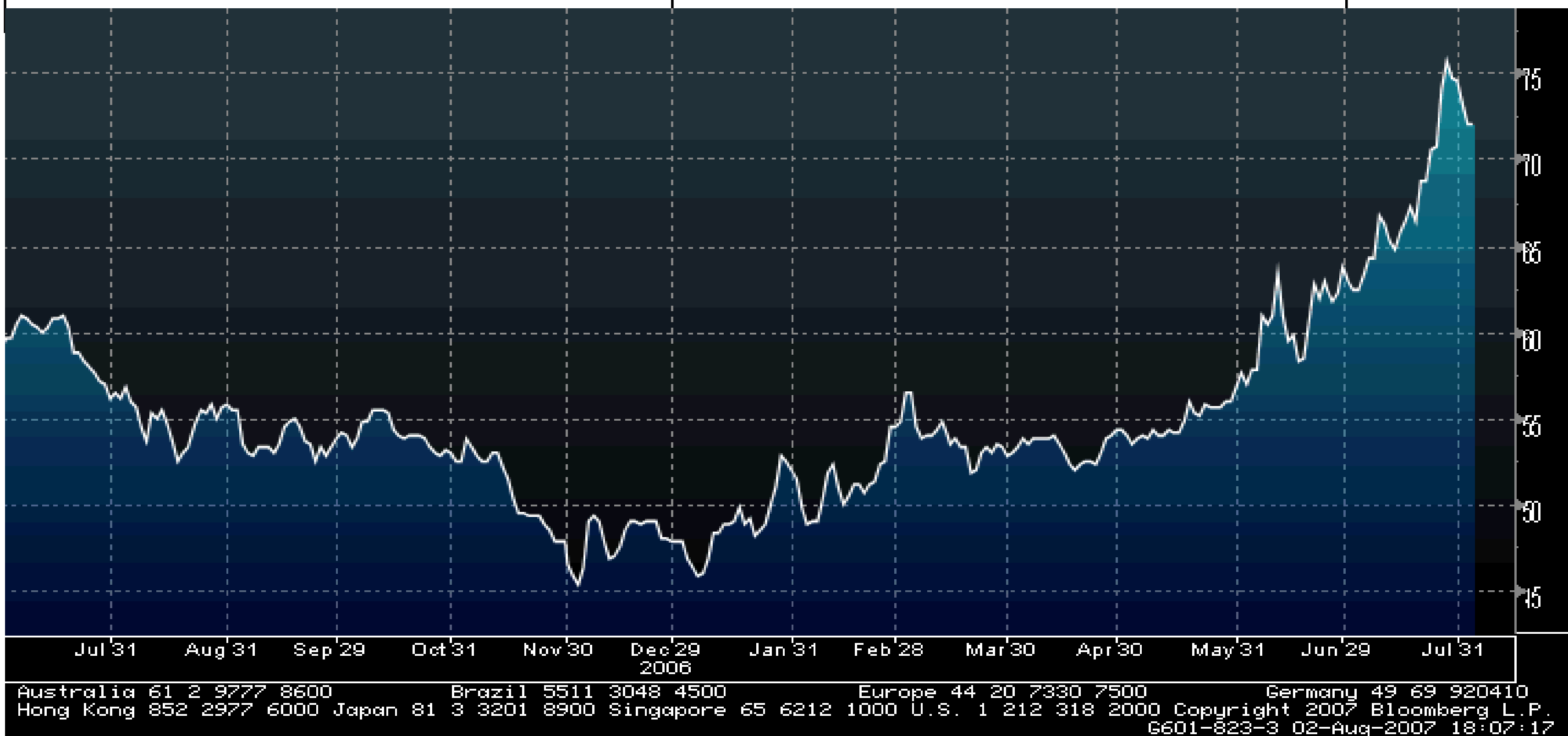
Flight-to-quality and repricing of risk as a result of subprime market.

10 Year Swap Spreads*

July 1, 2006 – August 2, 2007

Similar to the level of rates in FY 2007, swap spreads traded in a large 19 basis point range; however, swap spreads rose dramatically in June and July 2007.

1st half FY 2007 saw spreads narrow on all spread product in a low volatility, high liquidity, and "reach for yield" environment.	**2nd half FY 2007 was marked by several flight-to-quality events, mainly concerning the subprime mortgage market, widening spreads from the lows.**	**Corporate and mortgage spread widening.**



*Proxy for the risk premium associated with investing in non-treasury securities.

ASRS Fixed Income Asset Class (Aggregate)

ASRS Fixed Income Asset Class
June 30, 2007

Market Value: $5.6 bb

Passive Percent: 54.7%*

Target 55% ±20%

Portfolios:

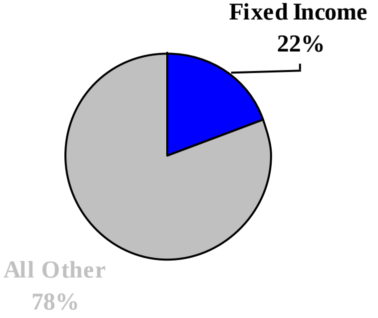
2 Enhanced Passive

3 Active

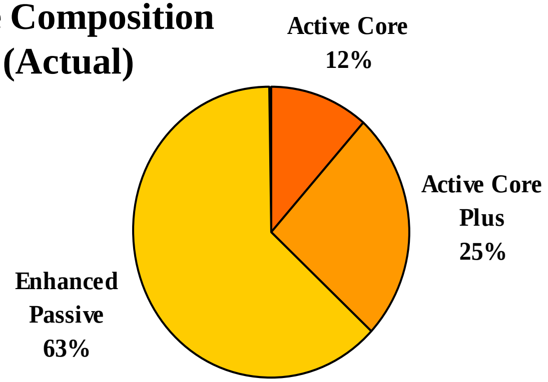
Average Fee: 7 bps

*Includes GTAA at assumed benchmark allocation.

Total Fund
$28.05 billion



Total Fixed Income Style Composition (Actual)



ASRS Fixed Income Managers
Mandates Overview
June 30, 2007

Manager	Style	Benchmark	Inception	Expected Alpha (bp)	Portfolio Assets ($mil)*	Strategy Assets ($mil)*
Active						
Blackrock	Core Plus	Leh Agg	11/30/98	80	$955	$31,500
Pyramis#	Core Plus	Leh Agg	12/31/03	100	461	6,797
JP Morgan	Core	Leh Agg	06/30/87	60	645	11,600
Enhanced Passive						
F2 (Enhanced)	Core	Leh Agg	09/30/00	10	2,231	N/A
BGI (Enhanced)	Core	Leh Agg	09/30/04	10	1,270	39,760

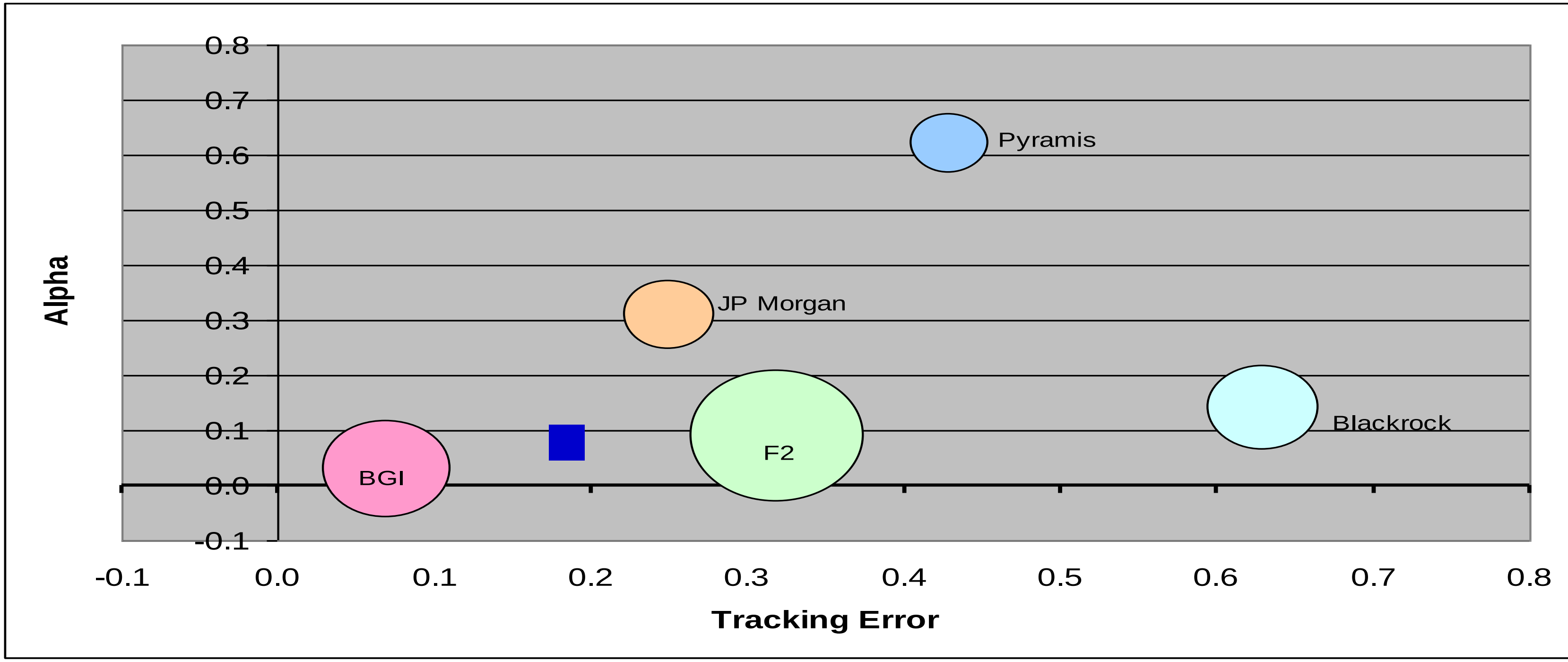
*as of June 30, 2007

Formerly Fidelity

Risk/Return Bubble Chart

ASRS Fixed Income Manager/Asset Class

For the 5-Year Period Ending June 30, 2007



	Manager	Portfolio Size	Inception	Alpha	Tracking Error	Information Ratio
	Blackrock	955.2	11/30/1998	0.14	0.63	0.22
	Pyramis*	461.5	12/31/2003	0.62	0.43	1.44
	JP Morgan	645.5	6/30/1987	0.31	0.25	1.23
	F2	2,231.7	9/30/2000	0.09	0.32	0.26
	BGI	1,270.9	9/30/2004	0.03	0.07	0.40
	Asset Class	**$ 5,568.4**	**7/1/1975**	**0.12**	**0.17**	**0.68**

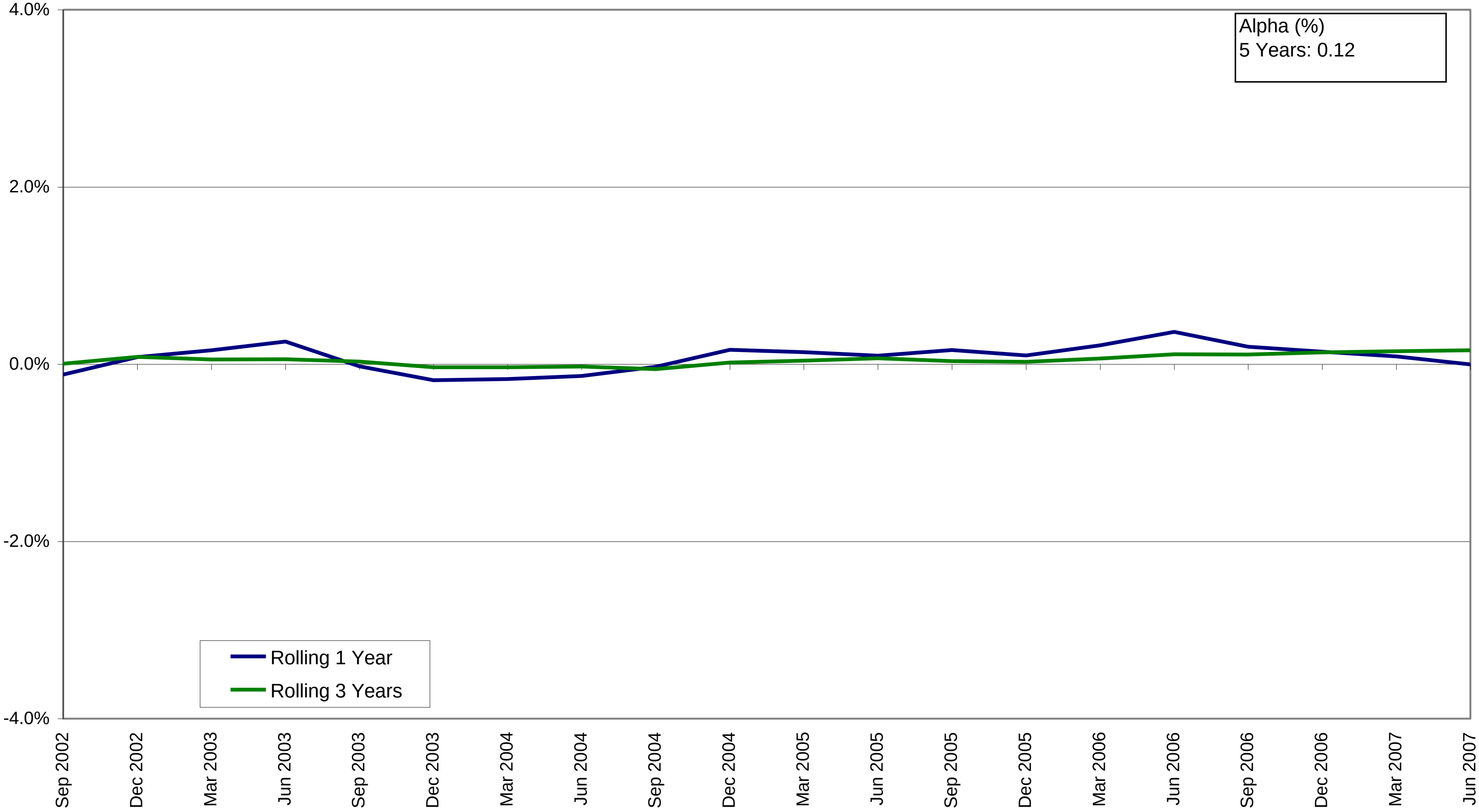
Alpha is Net of Fees

*Pyramis Risk/Return Calculations for 3.5 years (Inception to Date)

Alpha

ASRS Fixed Income Asset Class

For the 5–Year Period Ending June 30, 2007

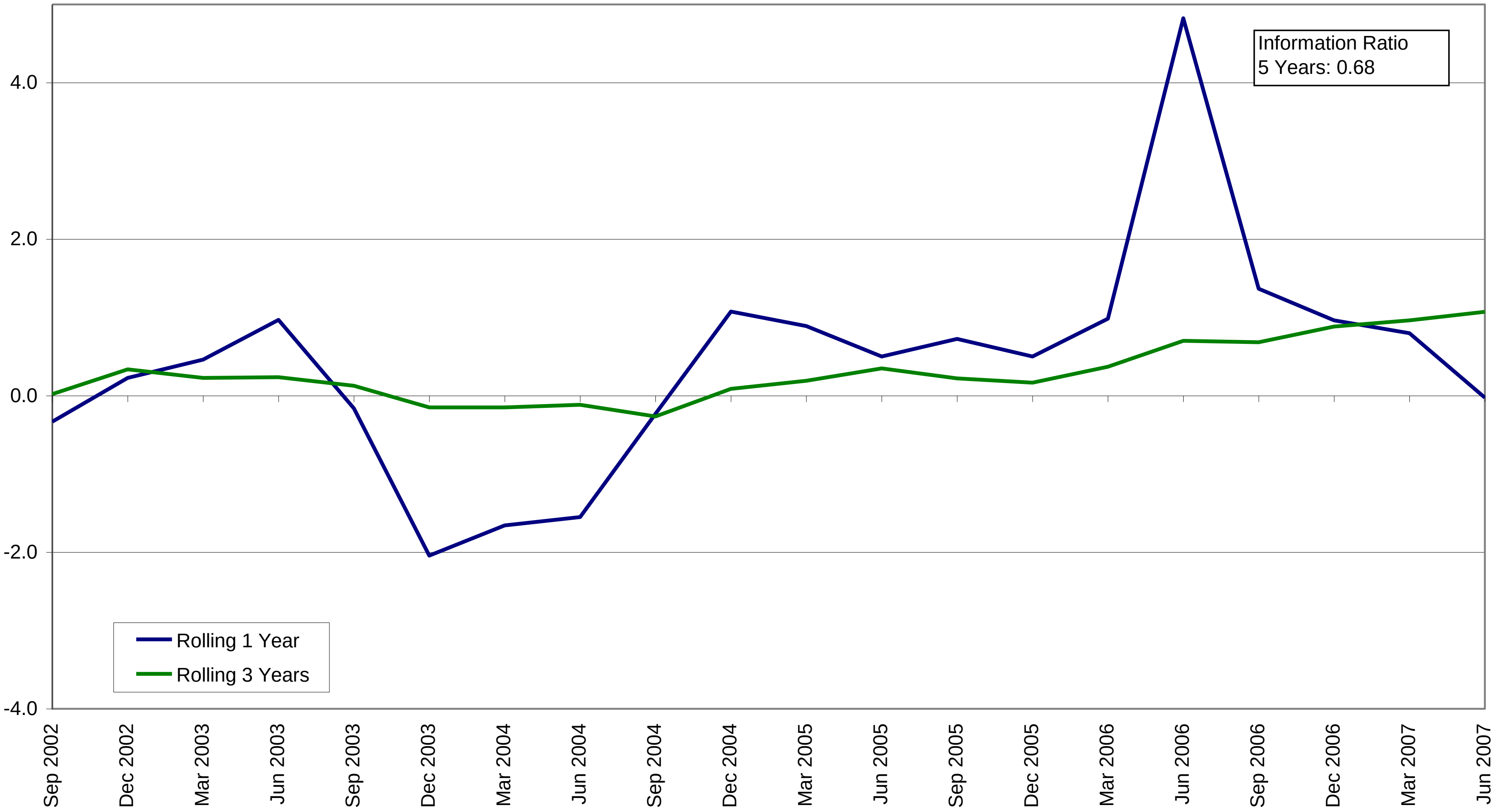


Calculated quarterly   Inception date 07/01/1975

Information Ratio

ASRS Fixed Income Asset Class

For the 5–Year Period Ending June 30, 2007

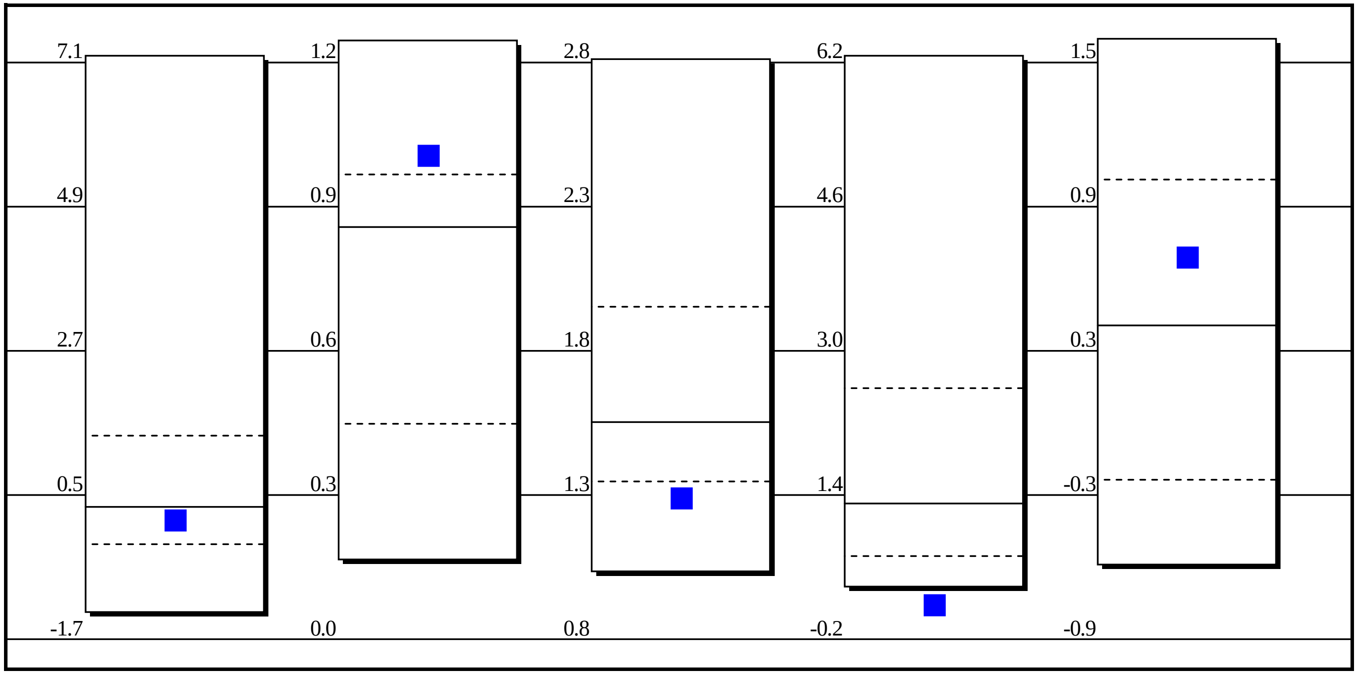


Calculated quarterly   Inception date 07/01/1975

Peer Comparison with the Mercer US Fixed Combined Universe

ASRS Fixed Income Asset Class

For the 5-Year Period Ending June 30, 2007

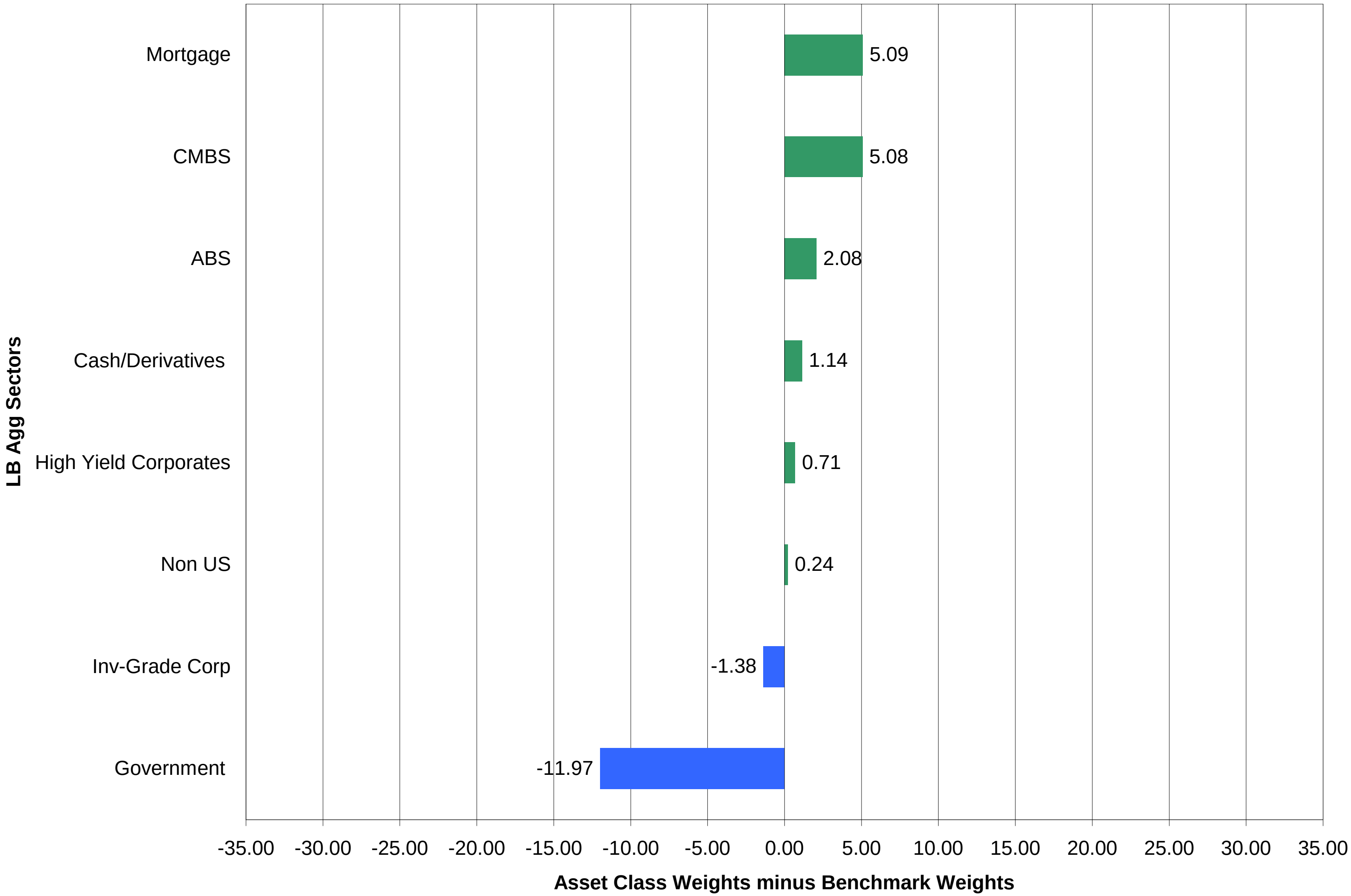


	Excess Return (% pa)	Beta	Reward to Risk	Tracking Error (% pa)	Information Ratio
Total FI	0.12 *(59)*	1.01 *(17)*	1.28 *(82)*	0.17 *(100)*	0.68 *(38)*
5th Percentile	7.20	1.24	2.81	6.26	1.60
Upper Quartile	1.39	0.97	1.95	2.57	1.01
Median	0.31	0.86	1.55	1.29	0.40
Lower Quartile	-0.26	0.45	1.34	0.71	-0.24
95th Percentile	-1.30	0.16	1.03	0.36	-0.60
Number of Funds	532	532	532	532	532

Positions: Portfolio Analysis – Sector Allocation

ASRS Fixed Income Asset Class

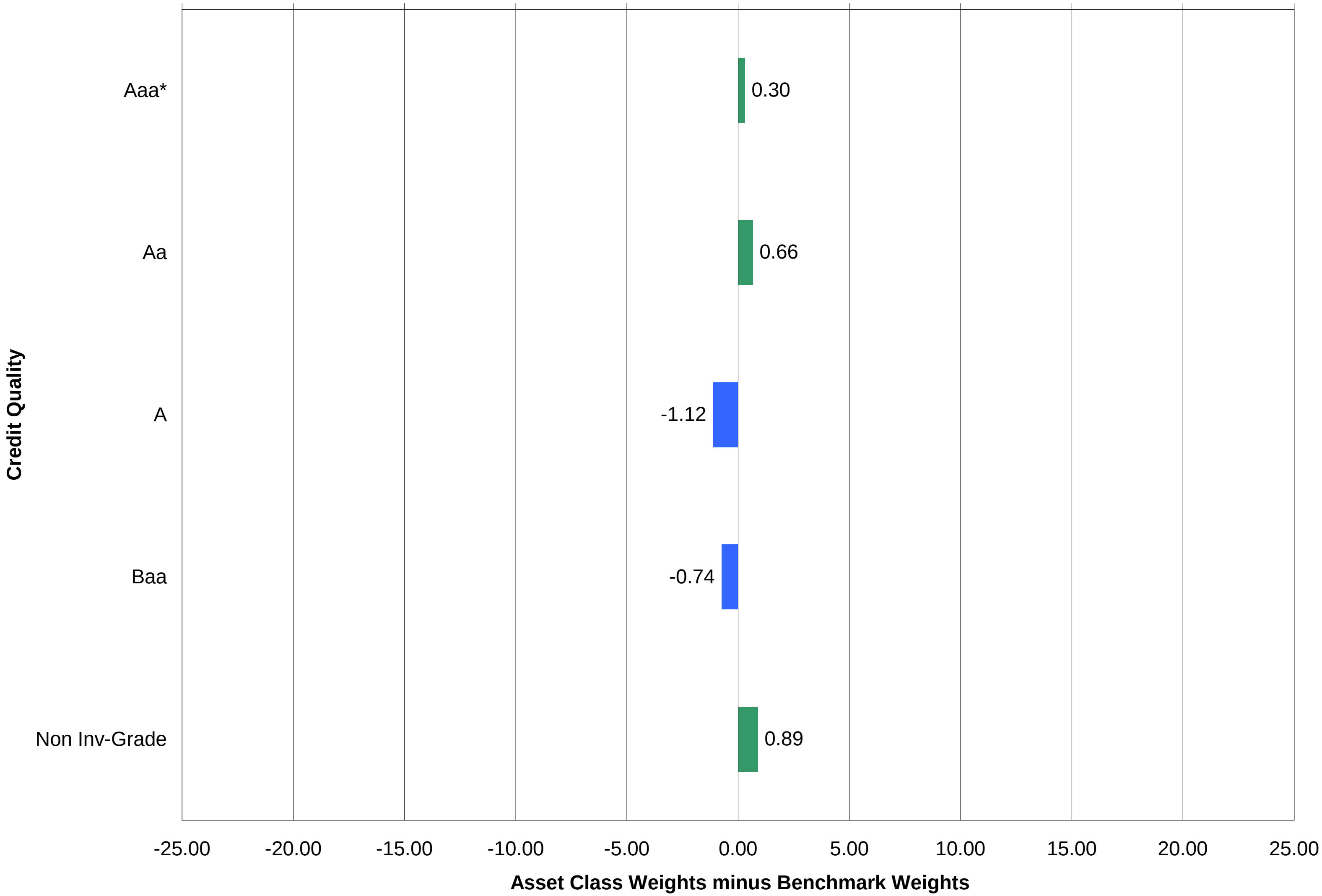
As of June 30, 2007



Positions: Portfolio Analysis – Credit Quality

ASRS Fixed Income Asset Class

As of June 30, 2007

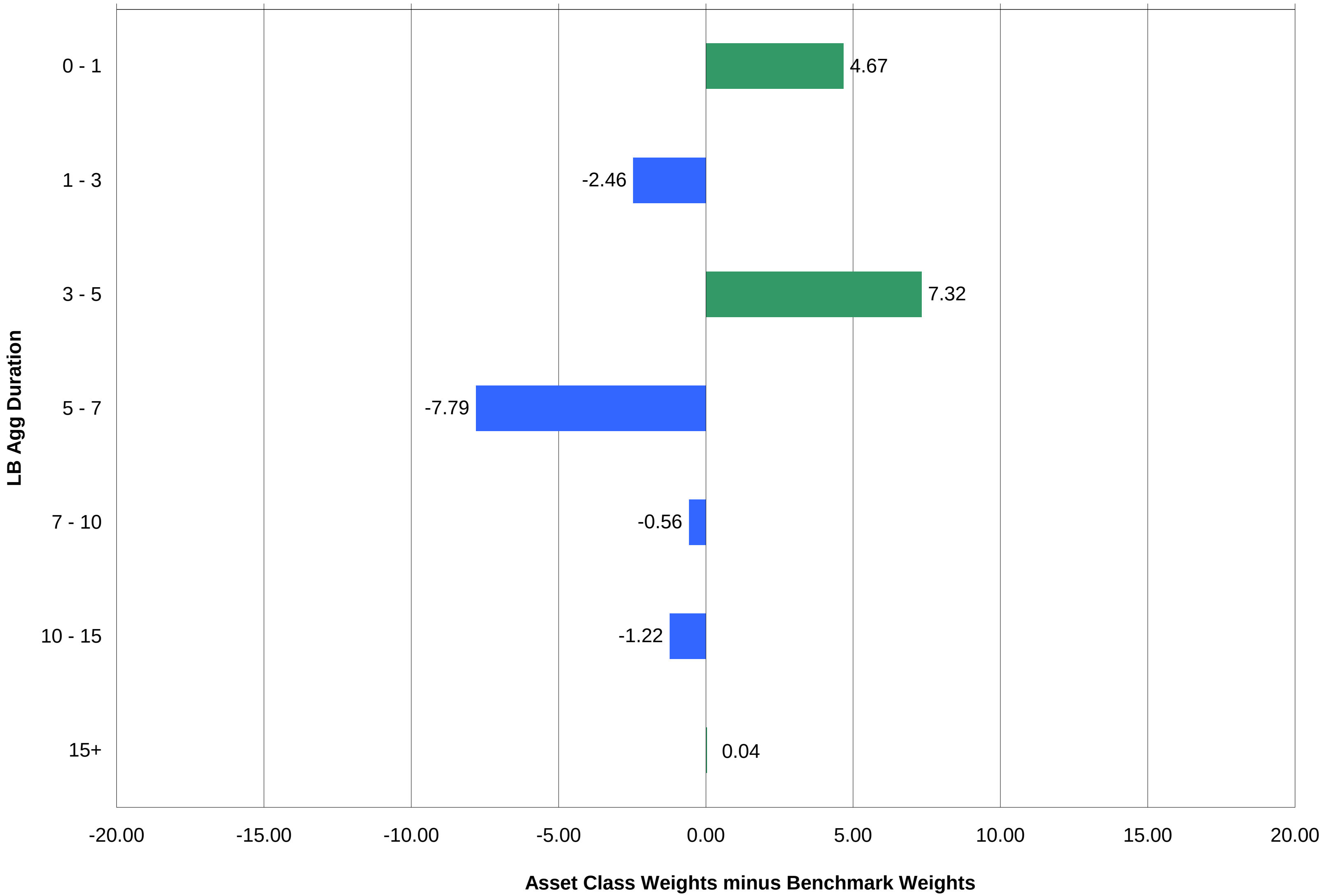


*Aaa includes corporates, governments, Aaa securitized paper, and cash

Positions: Portfolio Analysis – Duration Breakdown

ASRS Fixed Income Asset Class

As of June 30, 2007



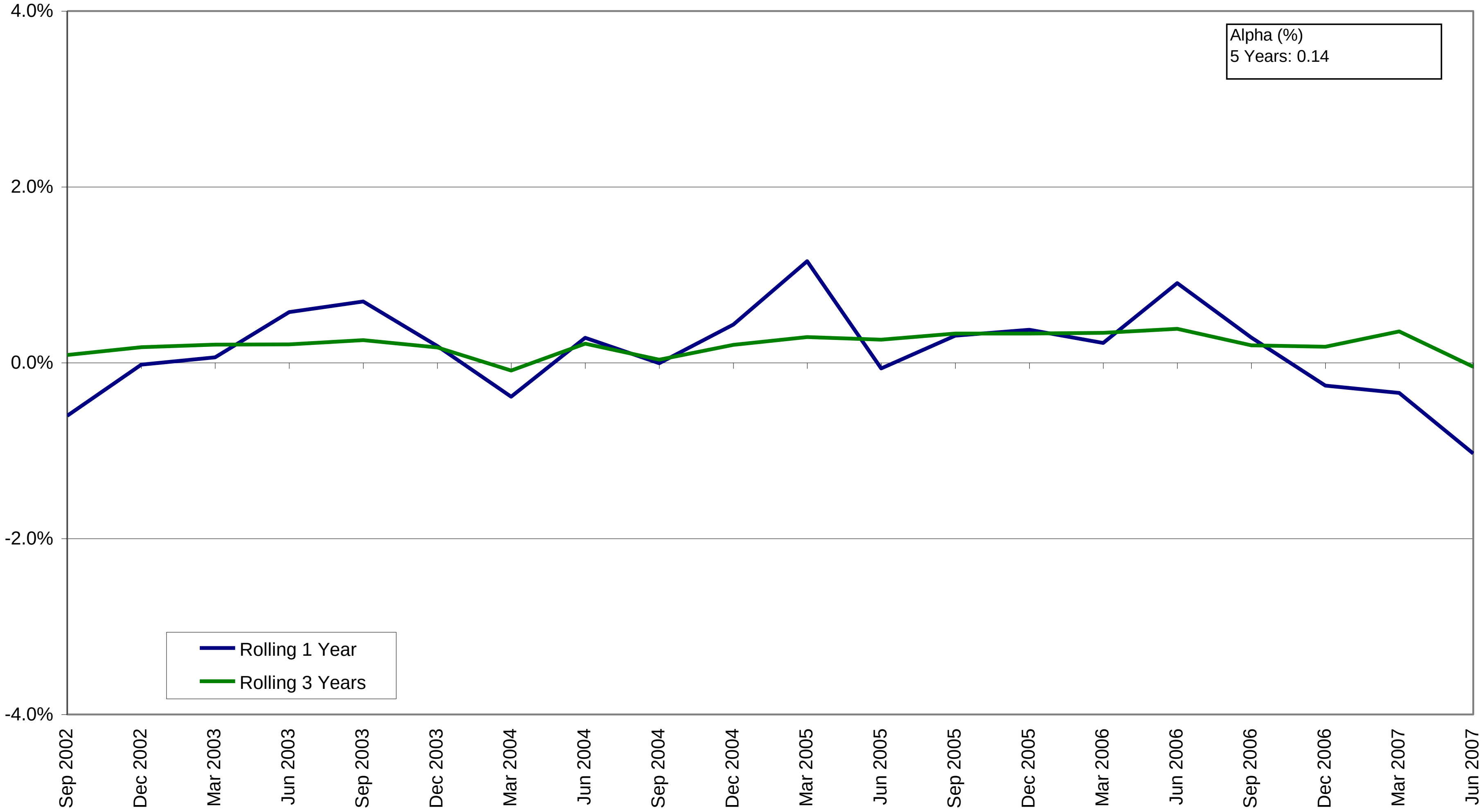
US Fixed Income Manager Reviews (Individual)

BlackRock Investment Management
Qualitative Factors

Factors	Description
People	Team approach to portfolio management, no portfolio is managed exclusively by any single portfolio manager. Acquisition of Merrill Lynch Investment Management Services and Quellos Group a fund-of-funds, increased BlackRock's share in the domestic and international retail markets.
Philosophy	Rigurous Credit Analysis State-of-the-art analytics systems Specialists in High Yield and Investment Grade Corporate Markets BlackRock's philosophy has not changed since the inception of the firm.
Process	BlackRock's Investment Strategy Group (ISG) evaluates macroeconomic trends, fundamental and technical factors to establish a framework for positioning client portfolios. Lead portfolio managers oversee the portfolio construction process for each portfolio. Sector specialists are responsible for the selection of securities taking into consideration the specific objectives and constraints of each portfolio.

Alpha
BlackRock Investment Management

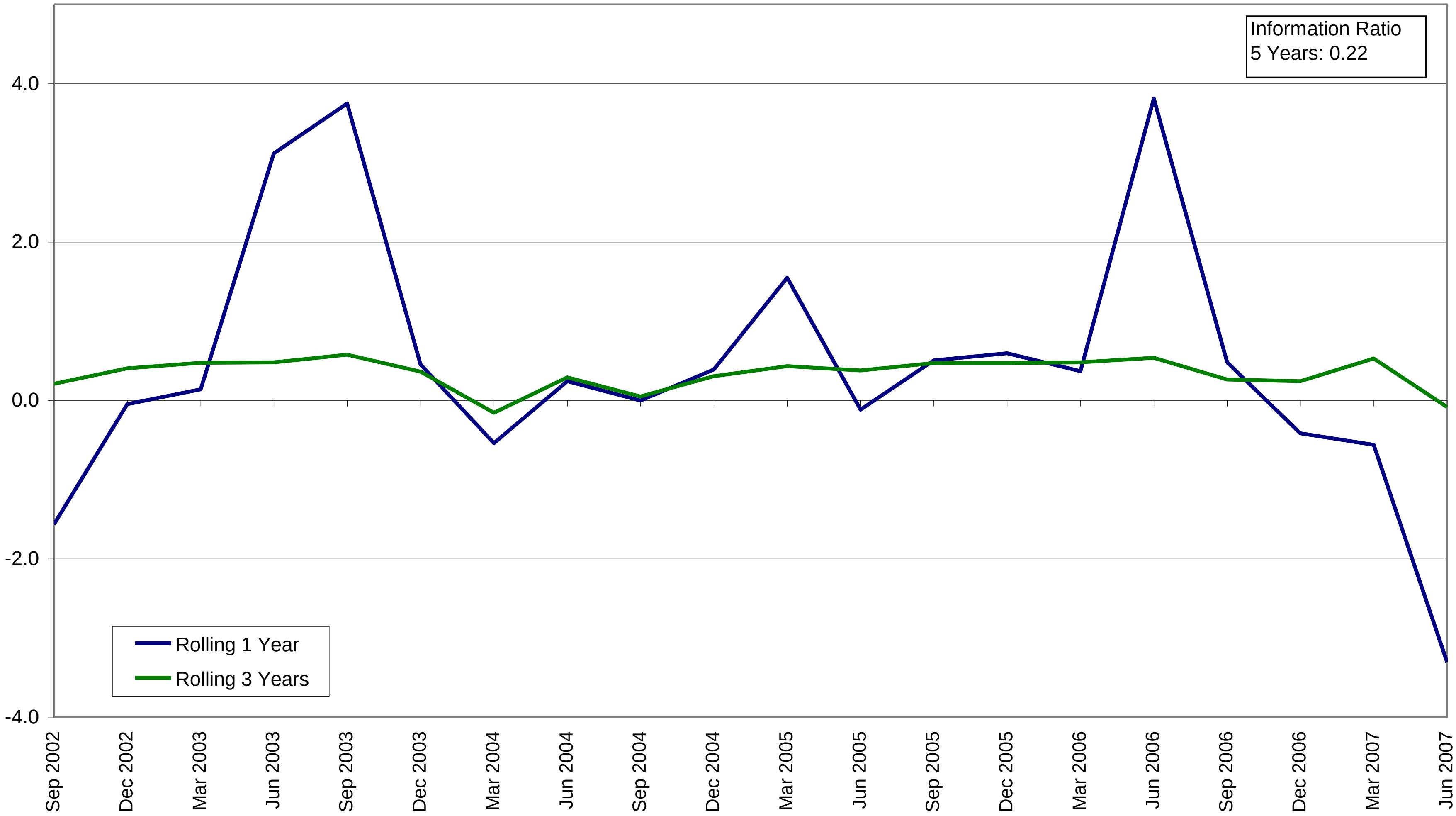
For the 5-Year Period Ending June 30, 2007



Calculated quarterly   Inception date 11/30/1998

Information Ratio
BlackRock Investment Management

For the 5-Year Period Ending June 30, 2007

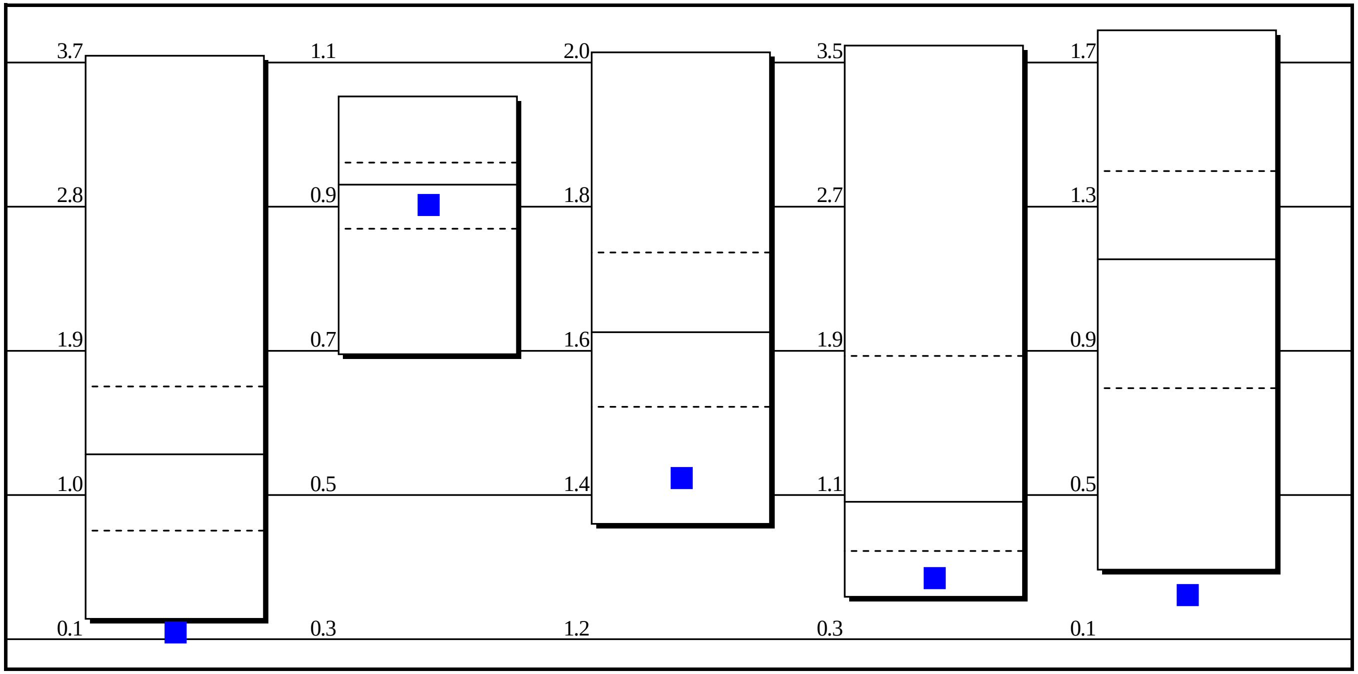


Calculated quarterly   Inception date 11/30/1998

Peer Comparison with the Mercer Fixed Core Opportunistic Universe

BlackRock Investment Management

For the 5-Year Period Ending June 30, 2007

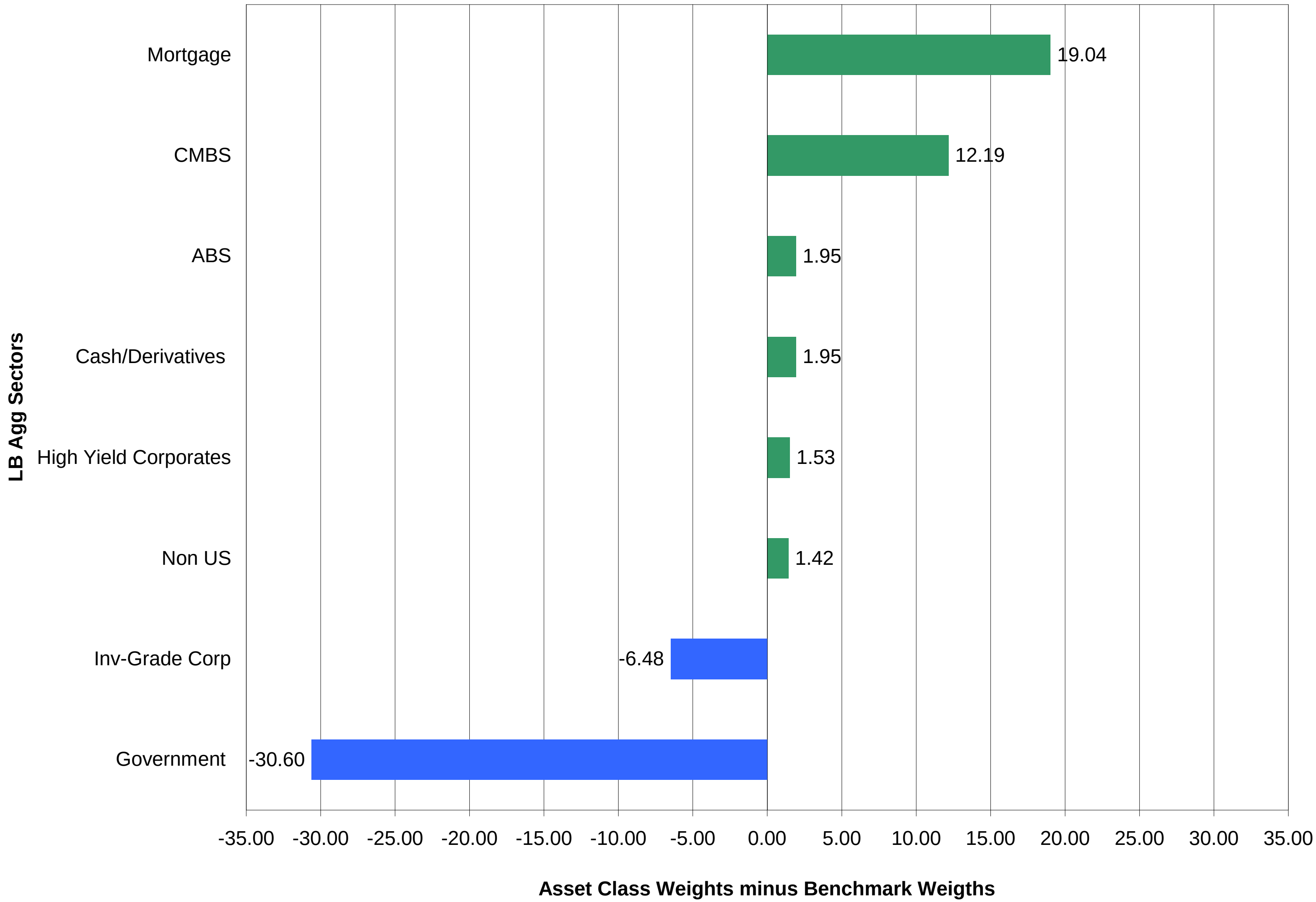


	Excess Return (% pa)	Beta	Reward to Risk	Tracking Error (% pa)	Information Ratio
BlackRock ■	0.14 *(95)*	0.90 *(64)*	1.42 *(90)*	0.63 *(86)*	0.22 *(97)*
5th Percentile	3.74	1.05	2.01	3.59	1.79
Upper Quartile	1.67	0.96	1.74	1.87	1.40
Median	1.25	0.93	1.63	1.06	1.15
Lower Quartile	0.77	0.87	1.52	0.79	0.80
95th Percentile	0.22	0.69	1.36	0.53	0.29
Number of Funds	75	75	75	75	75

Positions: Portfolio Analysis – Sector Allocation

BlackRock Investment Management

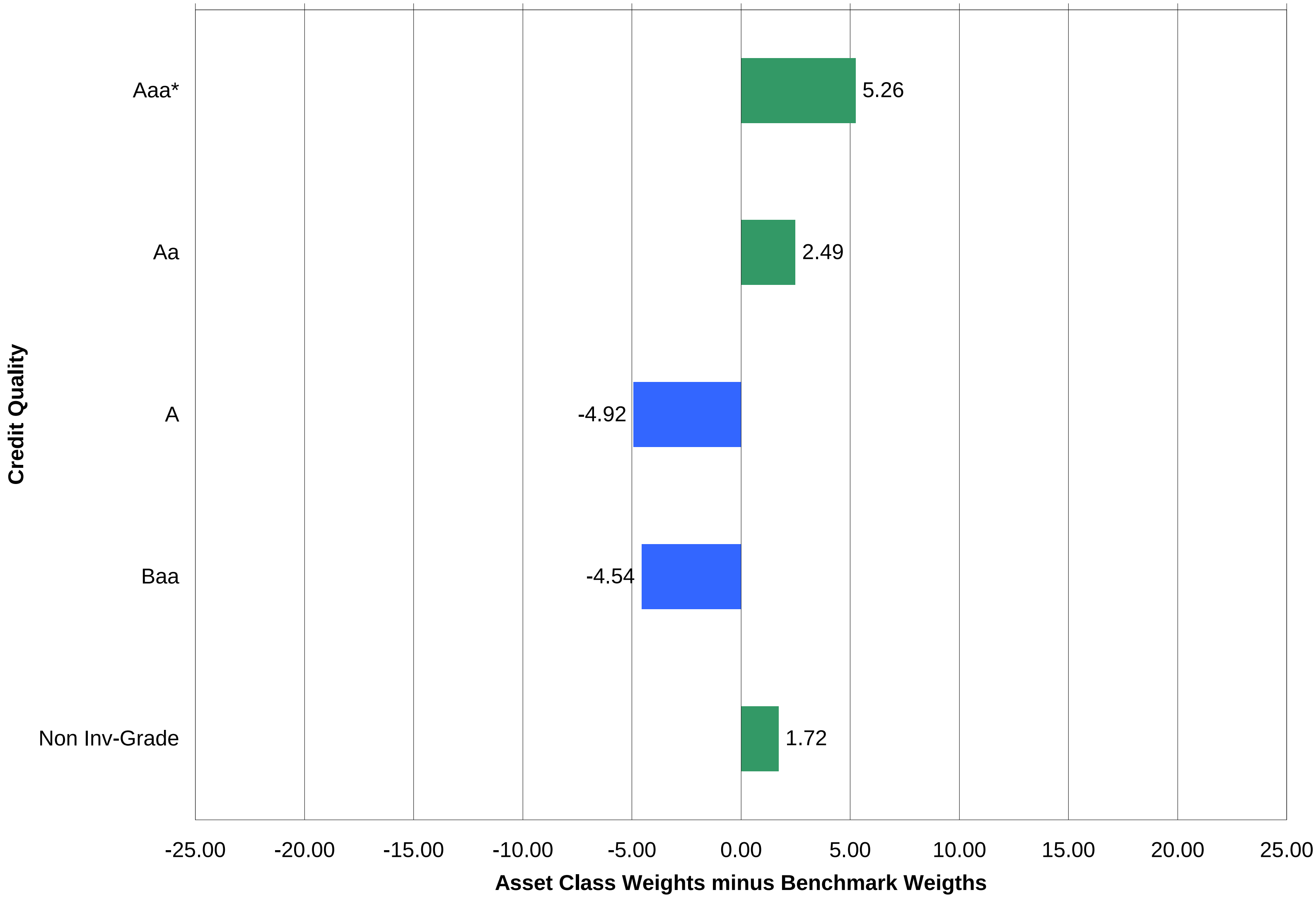
As of June 30, 2007



Positions: Portfolio Analysis – Credit Quality

BlackRock Investment Management

As of June 30, 2007

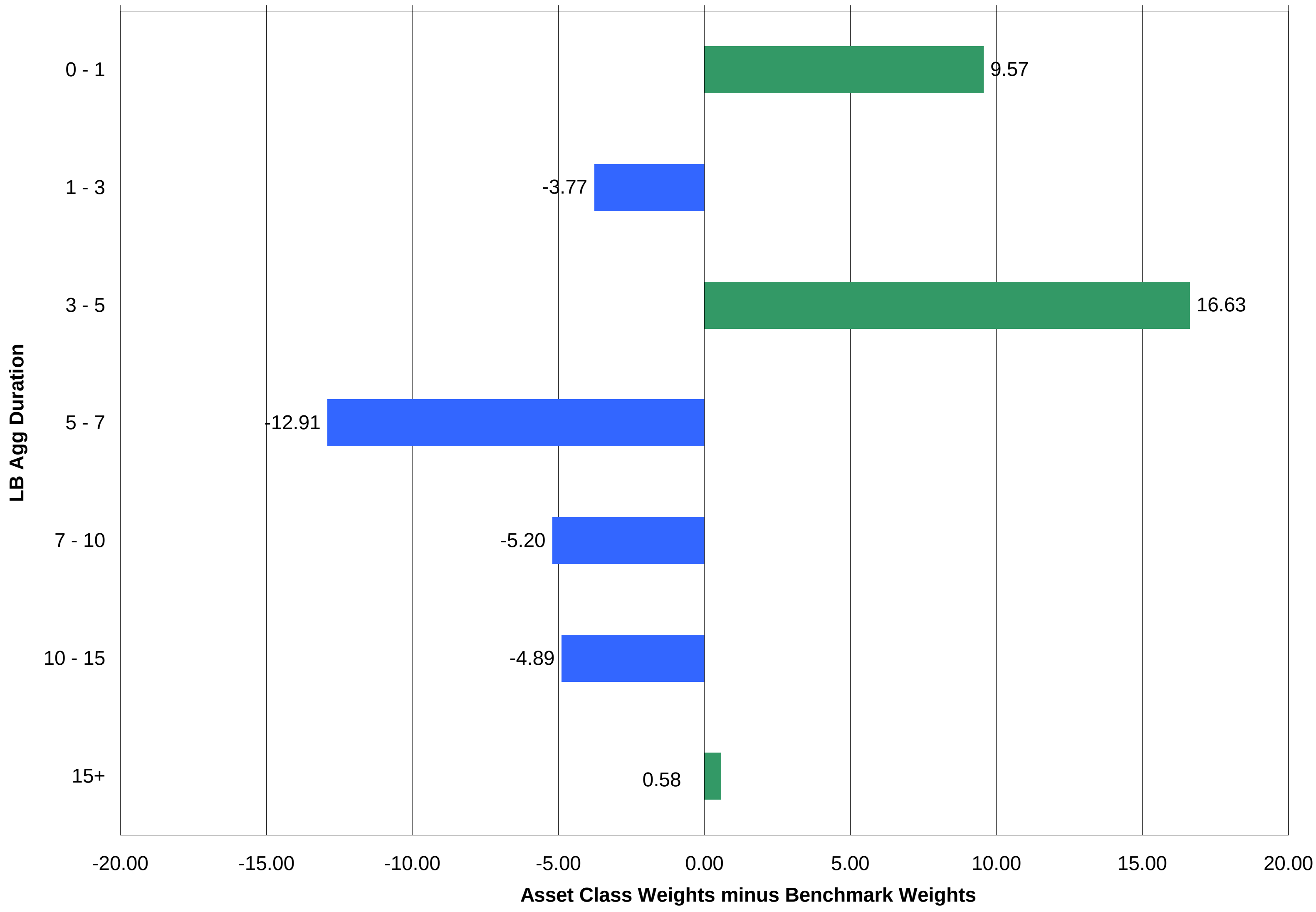


*Aaa includes corporates, governments, Aaa securitized paper, and cash

Positions: Portfolio Analysis – Duration Breakdown

BlackRock Investment Management

As of June 30, 2007

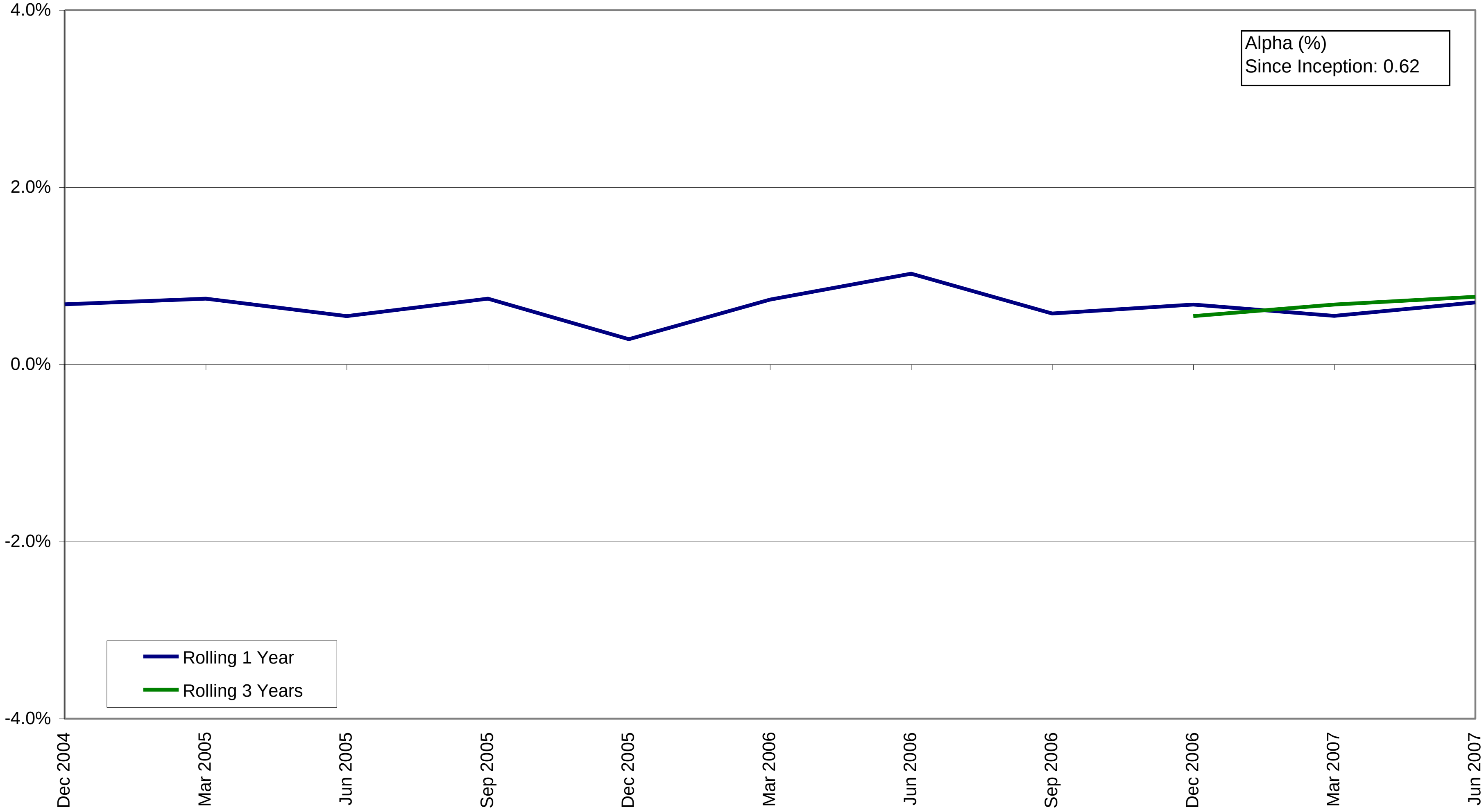


Pyramis Global Investors
Qualitative Factors

Factors	Description
People	Portfolio management team led by lead PM and dedicated specialist investment teams from each asset class. Core Plus PM responsible for asset allocation between asset classes and portfolio rebalancing Interaction of PM/analysts/traders to continuously monitor portfolios
Philosophy	Focus on security selection Rigurous credit analysis Specialists in Investment-Grade and High Yield Markets
Process	Portfolios constructed based on tactical asset allocation decisions between investment grade and high yield asset classes based on client's specific risk/reward objectives. Accounts managed in a pool or separate account vehicle by dedicated investment teams.

Alpha
Pyramis Global Advisors

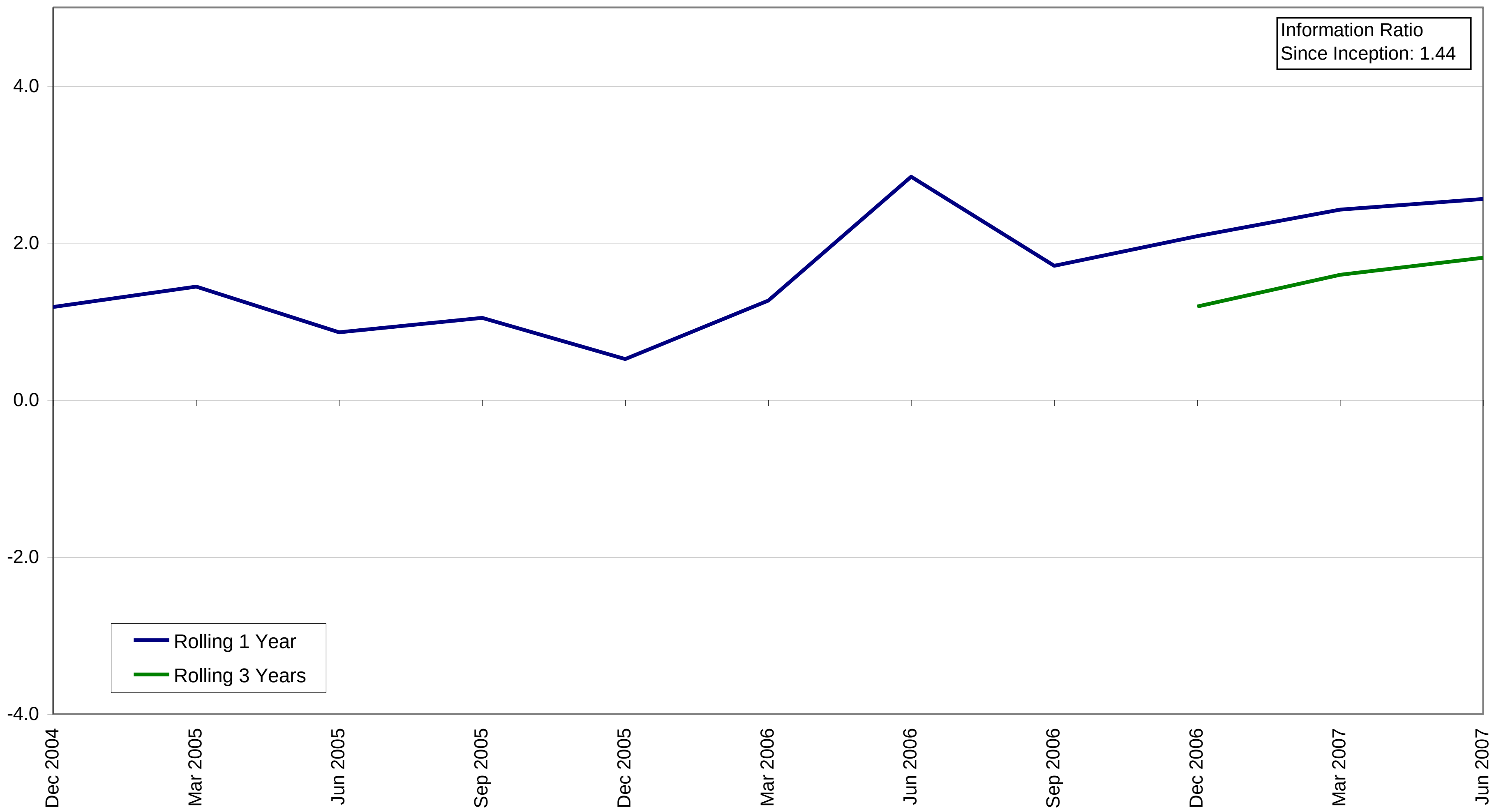
Since Inception Period Ending June 30, 2007



Calculated quarterly   Inception date 12/31/2003

Information Ratio
Pyramis Global Advisors

Since Inception Period Ending June 30, 2007

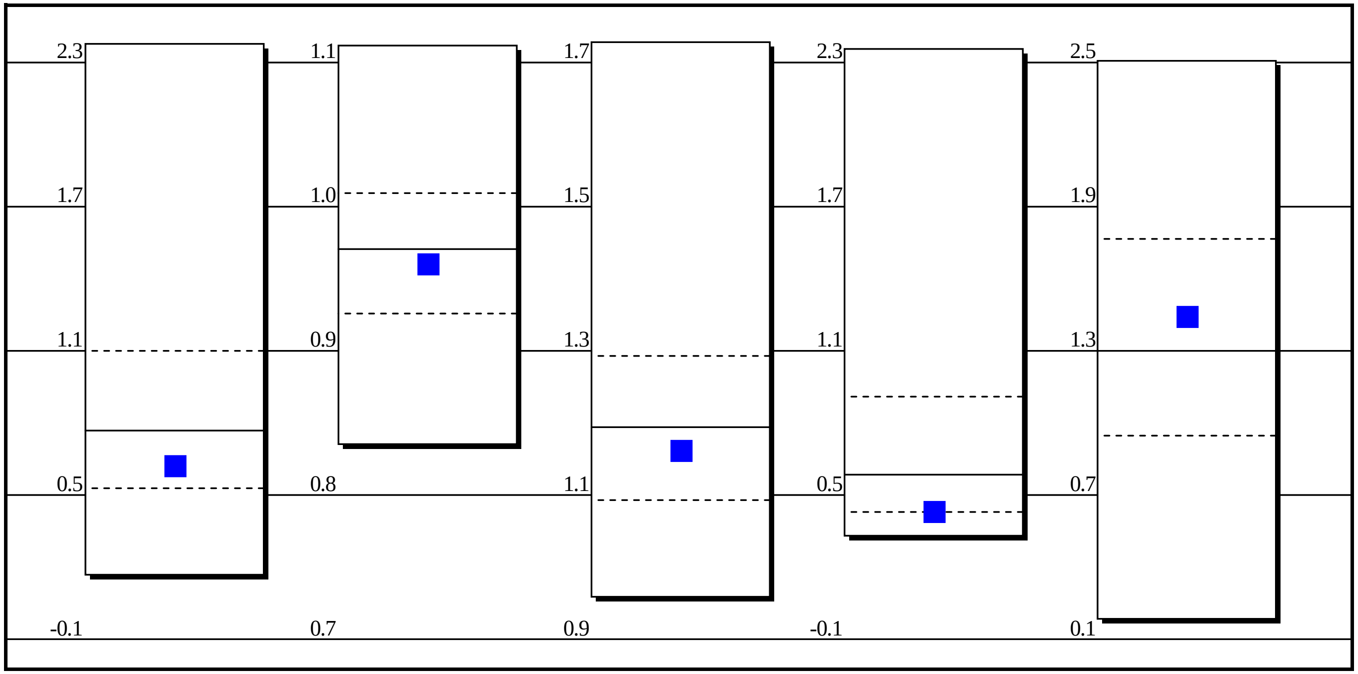


Calculated quarterly   Inception date 12/31/2003

Peer Comparison with the Mercer Fixed Core Opportunistic Universe

Pyramis Global Advisors

Since Inception Period Ending June 30, 2007

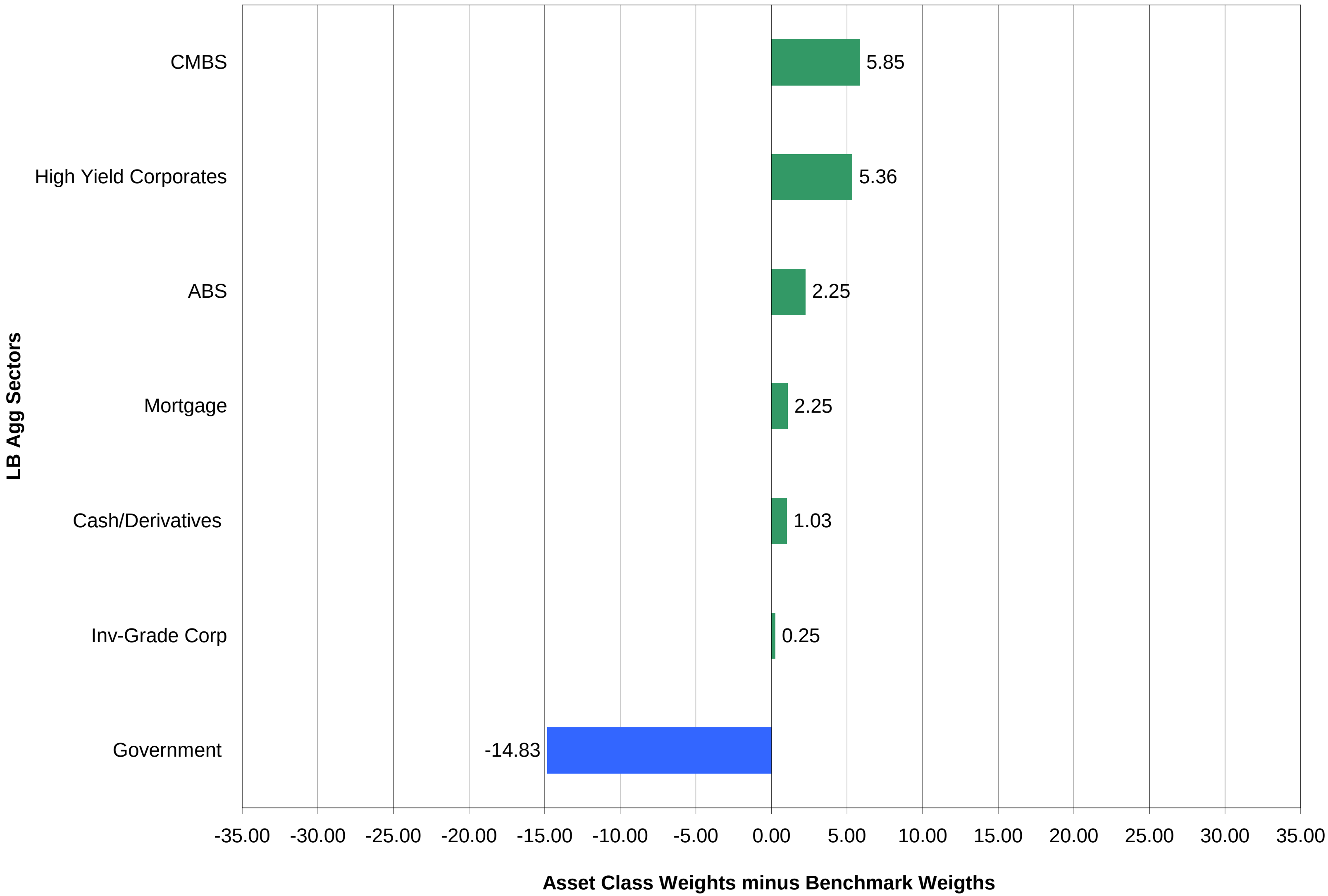


	Excess Return (% pa)	Beta	Reward to Risk	Tracking Error (% pa)	Information Ratio
Pyramis	0.62 *(66)*	0.96 *(52)*	1.16 *(59)*	0.43 *(74)*	1.44 *(43)*
5th Percentile	2.38	1.11	1.73	2.35	2.50
Upper Quartile	1.10	1.01	1.29	0.90	1.76
Median	0.77	0.97	1.19	0.58	1.30
Lower Quartile	0.53	0.93	1.09	0.43	0.95
95th Percentile	0.17	0.83	0.96	0.33	0.18
Number of Funds	79	79	79	79	79

Positions: Portfolio Analysis – Sector Allocation

Pyramis Global Advisors

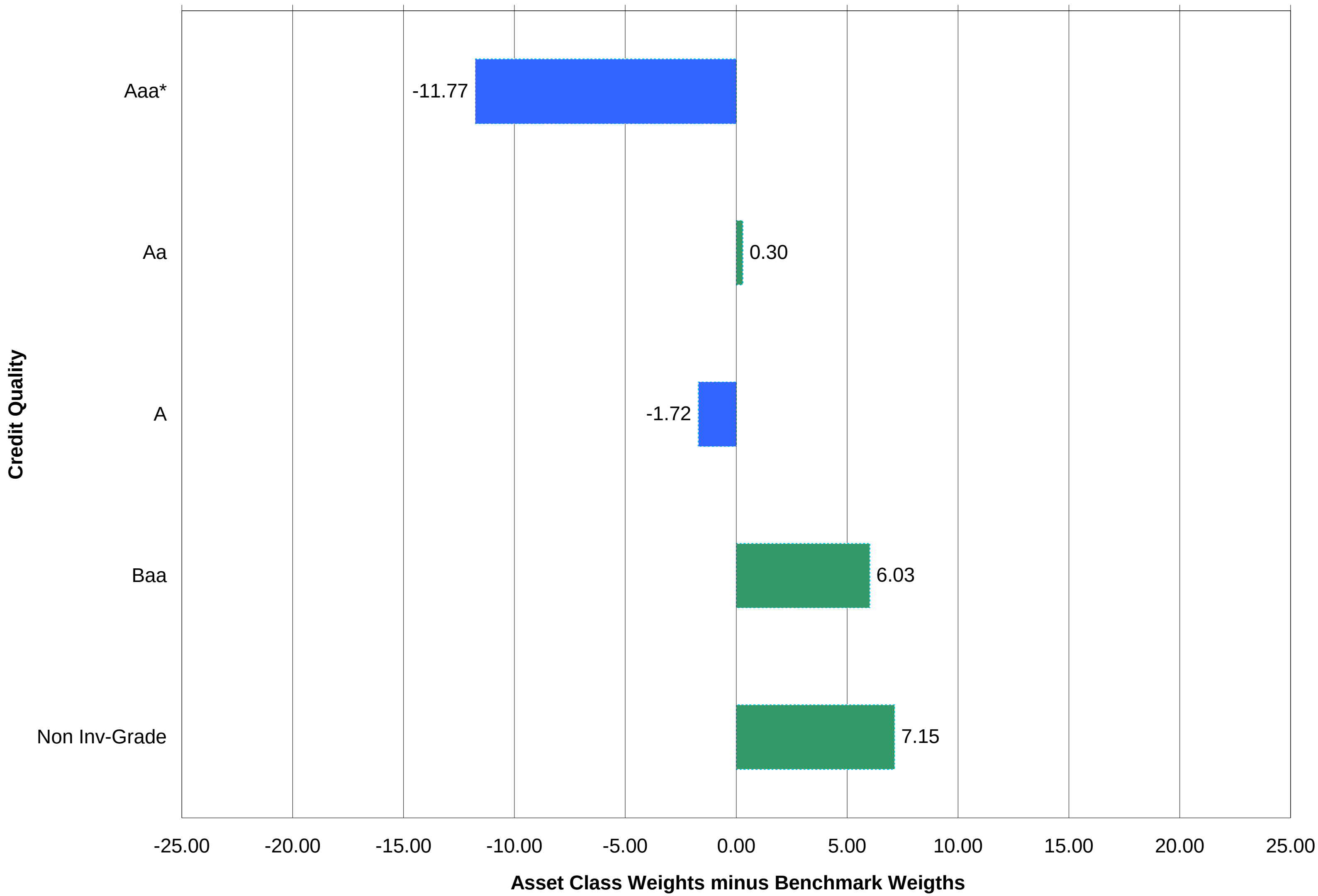
As of June 30, 2007



Positions: Portfolio Analysis – Credit Quality

Pyramis Global Advisors

As of June 30, 2007

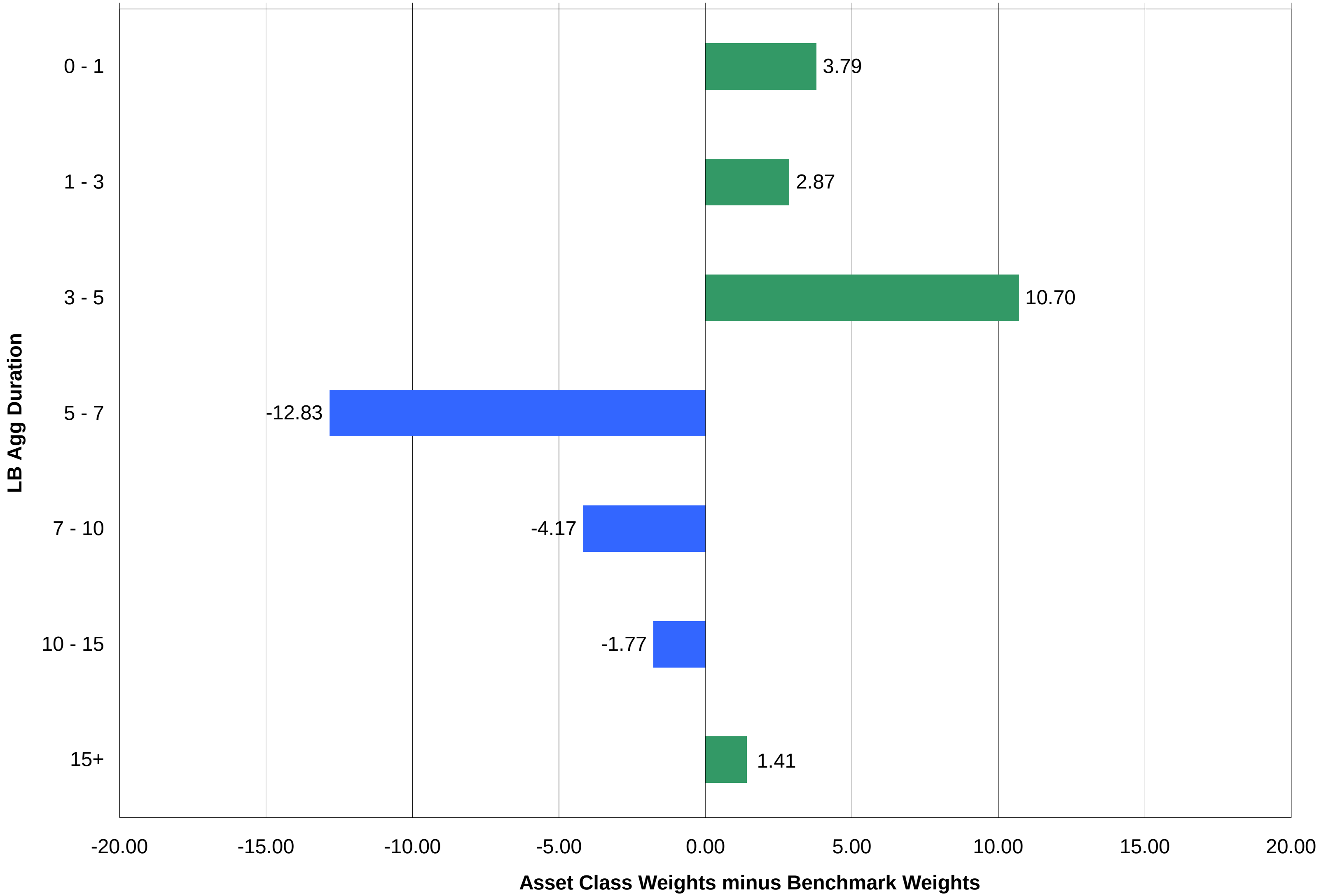


*Aaa includes corporates, governments, Aaa securitized paper, and cash

Positions: Portfolio Analysis – Duration Breakdown

Pyramis Global Advisors

As of June 30, 2007

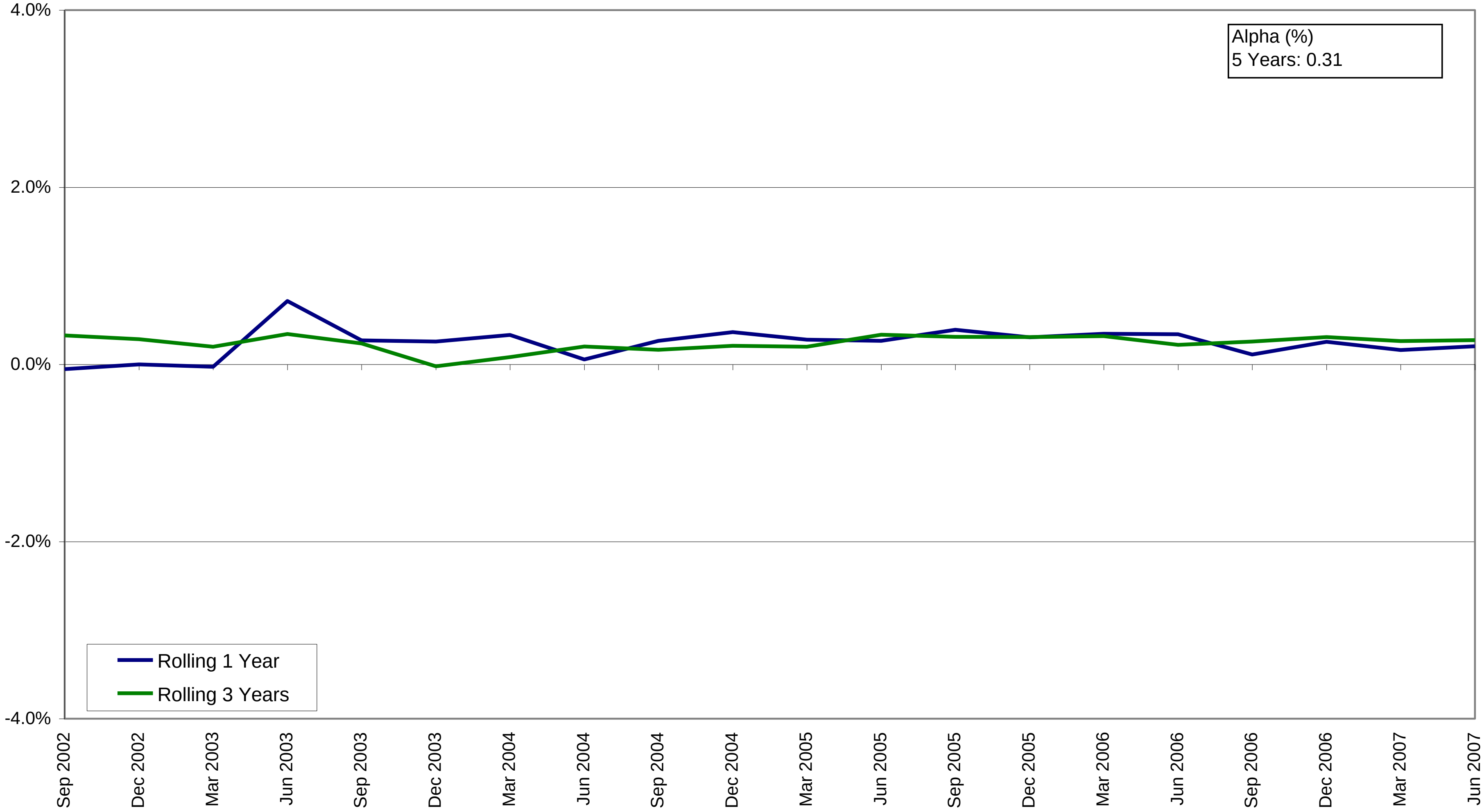


JP Morgan Asset Management
Qualitative Factors

Factors	Description
People	Team based approach to portfolio management. Proprietary fixed income research analyzes the investment process – from top-down strategy, to security selection, to portfolio construction and risk management .
Philosophy	Focus on security selection Rigurous credit analysis Specialists in Investment-Grade Corporate Markets
Process	Formal quarterly strategy sessions to determine firm's wide interest rate and sector portfolio themes across the Fixed income Group for the coming quarters. Value added process by establishing sector and duration strategy, and security selection ideas from specialists teams.

Alpha
JP Morgan Asset Management

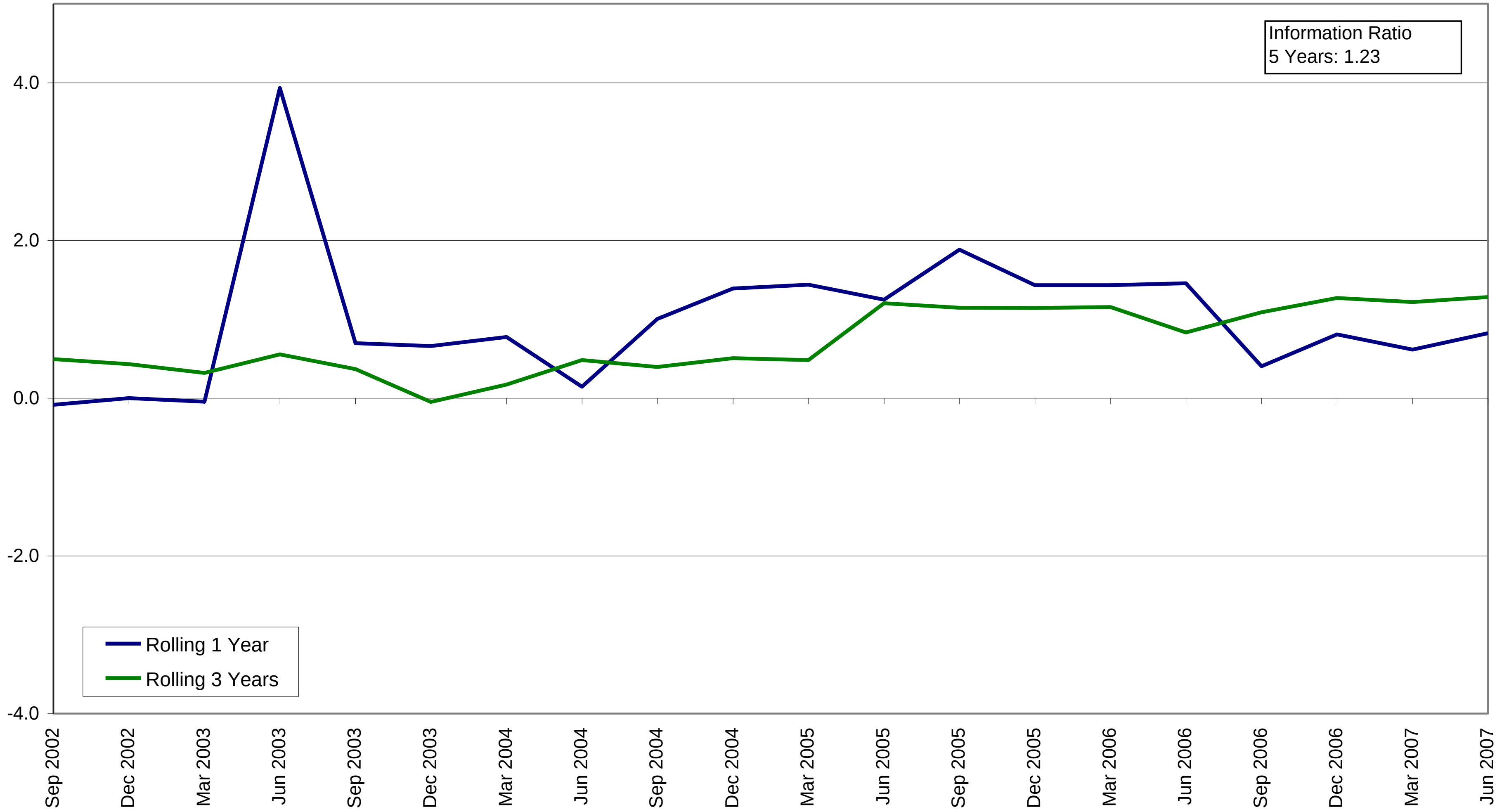
For the 5-Year Period Ending June 30, 2007



Calculated quarterly   Inception date 06/30/1987

Information Ratio
JP Morgan Asset Management

For the 5-Year Period Ending June 30, 2007

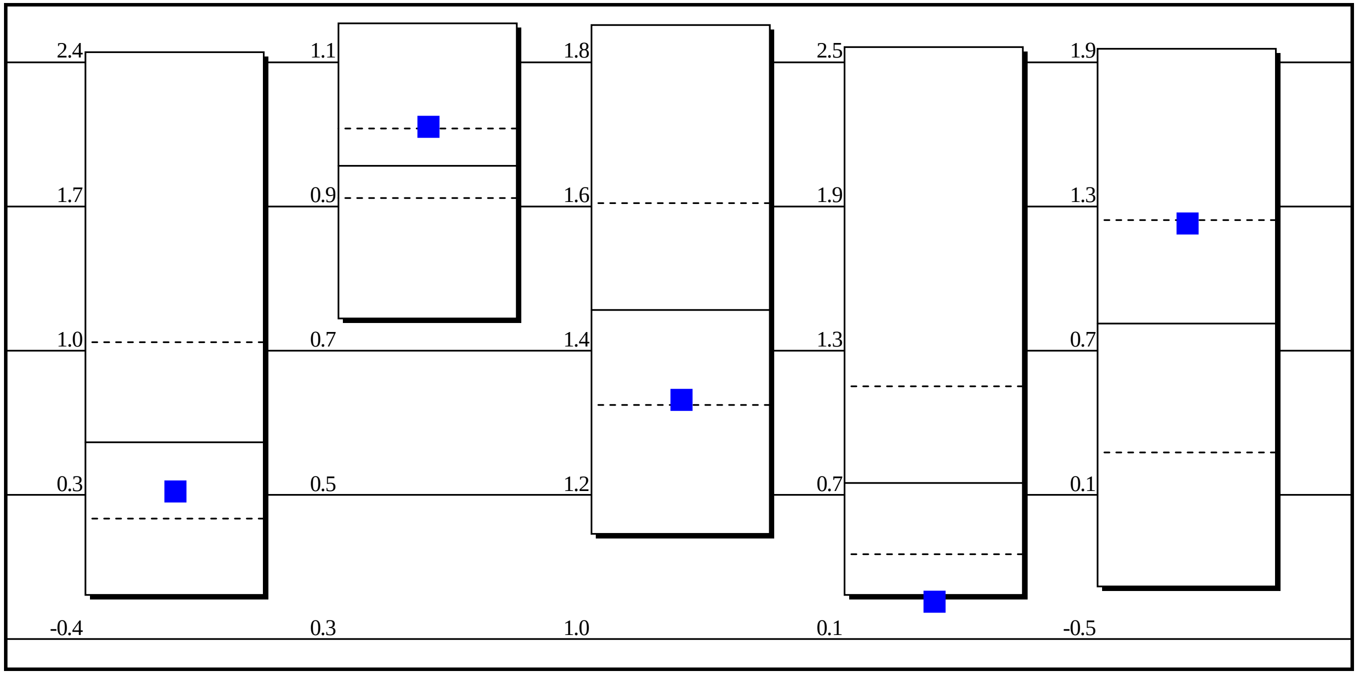


Calculated quarterly   Inception date 06/30/1987

Peer Comparison with the Mercer Fixed Core Universe

JP Morgan Asset Management

For the 5-Year Period Ending June 30, 2007

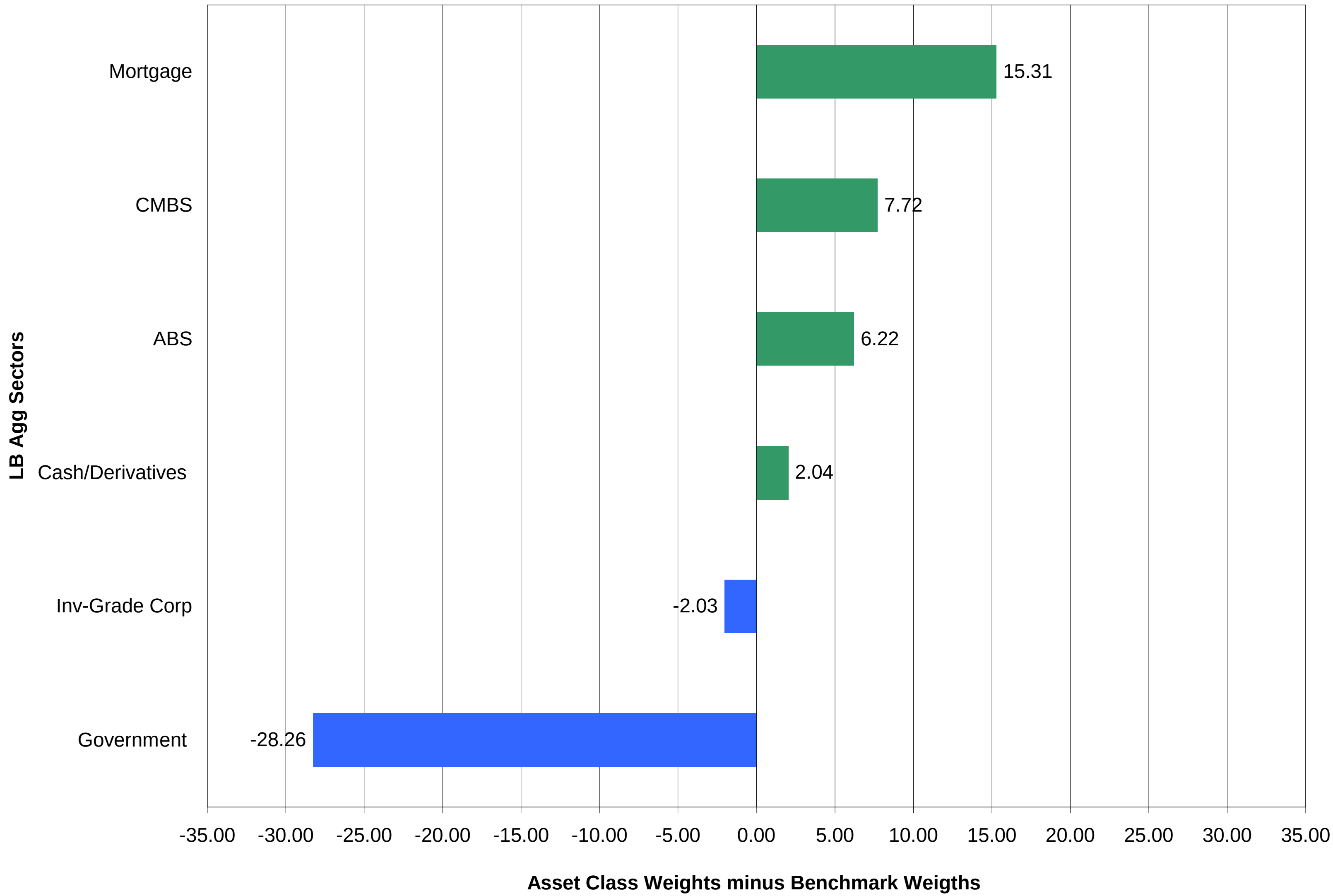


	Excess Return (% pa)		Beta		Reward to Risk		Tracking Error (% pa)		Information Ratio	
JPMorgan	0.31	*(66)*	1.01	*(23)*	1.33	*(73)*	0.25	*(97)*	1.23	*(26)*
5th Percentile	2.45		1.15		1.85		2.56		1.95	
Upper Quartile	1.04		1.01		1.60		1.15		1.24	
Median	0.55		0.96		1.46		0.75		0.81	
Lower Quartile	0.18		0.91		1.32		0.45		0.28	
95th Percentile	-0.19		0.74		1.14		0.27		-0.29	
Number of Funds	226		226		226		226		226	

Positions: Portfolio Analysis – Sector Allocation

JP Morgan Asset Management

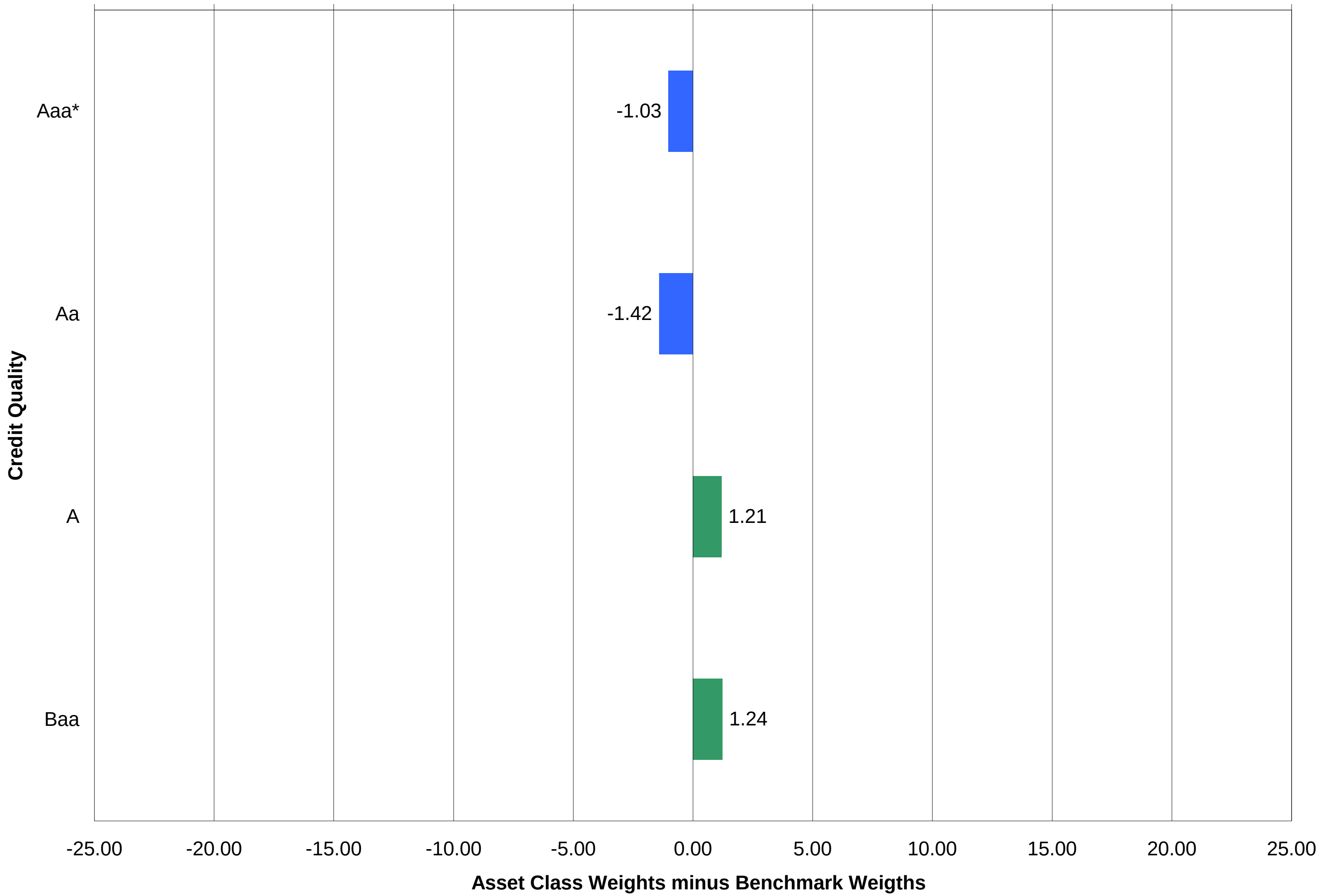
As of June 30, 2007



Positions: Portfolio Analysis – Credit Quality

JP Morgan Asset Management

As of June 30, 2007

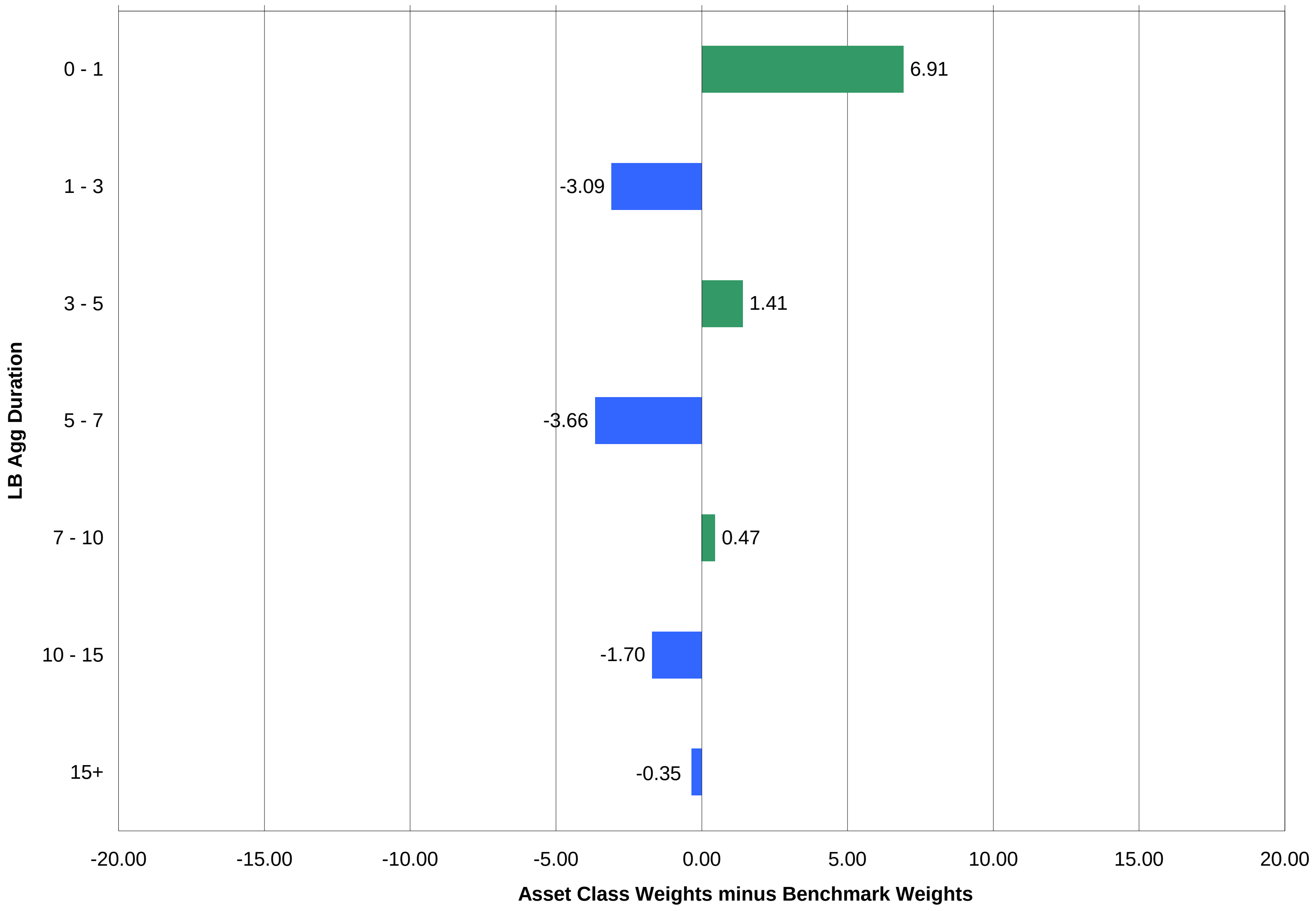


*Aaa includes corporates, governments, Aaa securitized paper, and cash

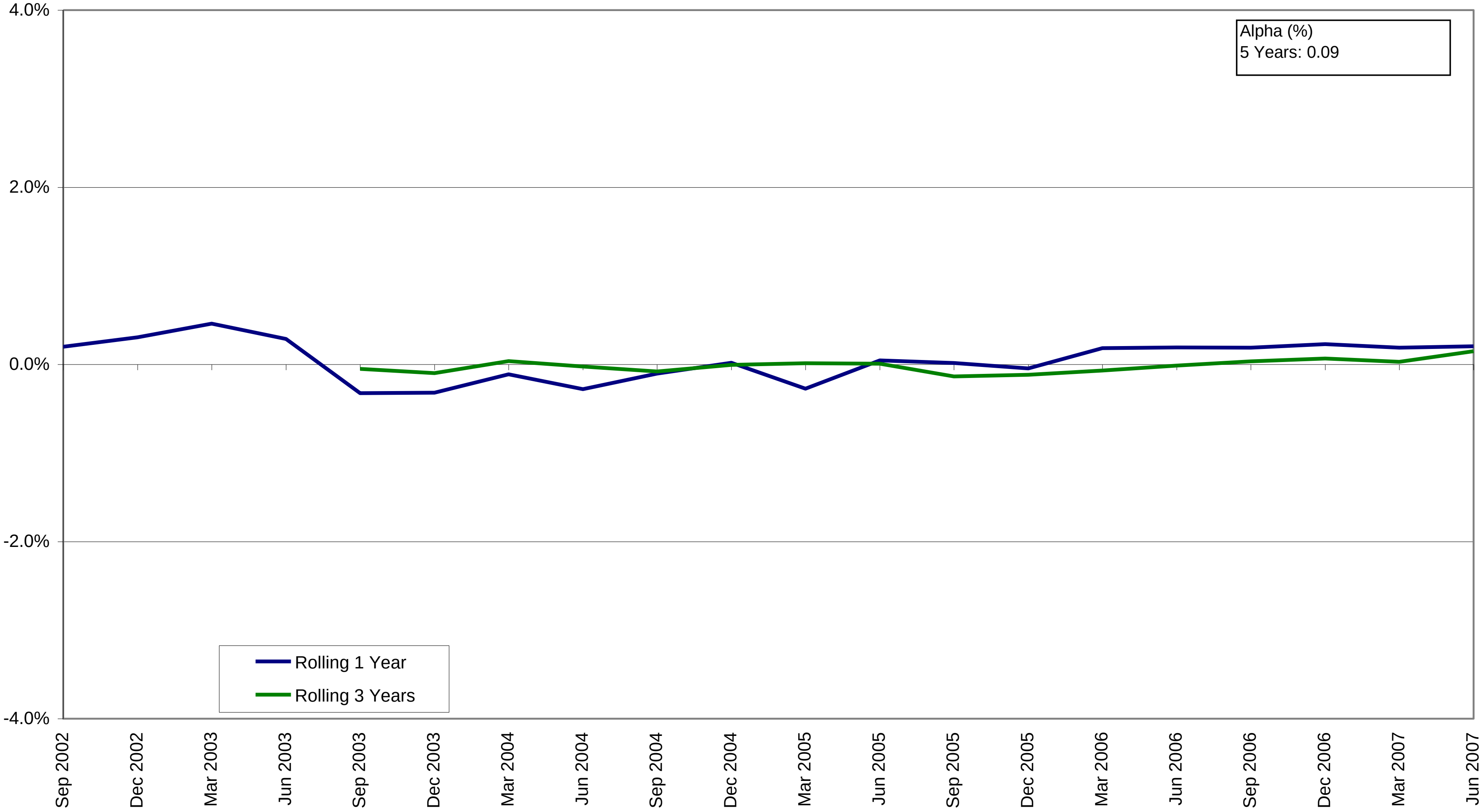
Positions: Portfolio Analysis – Duration Breakdown

JP Morgan Asset Management

As of June 30, 2007



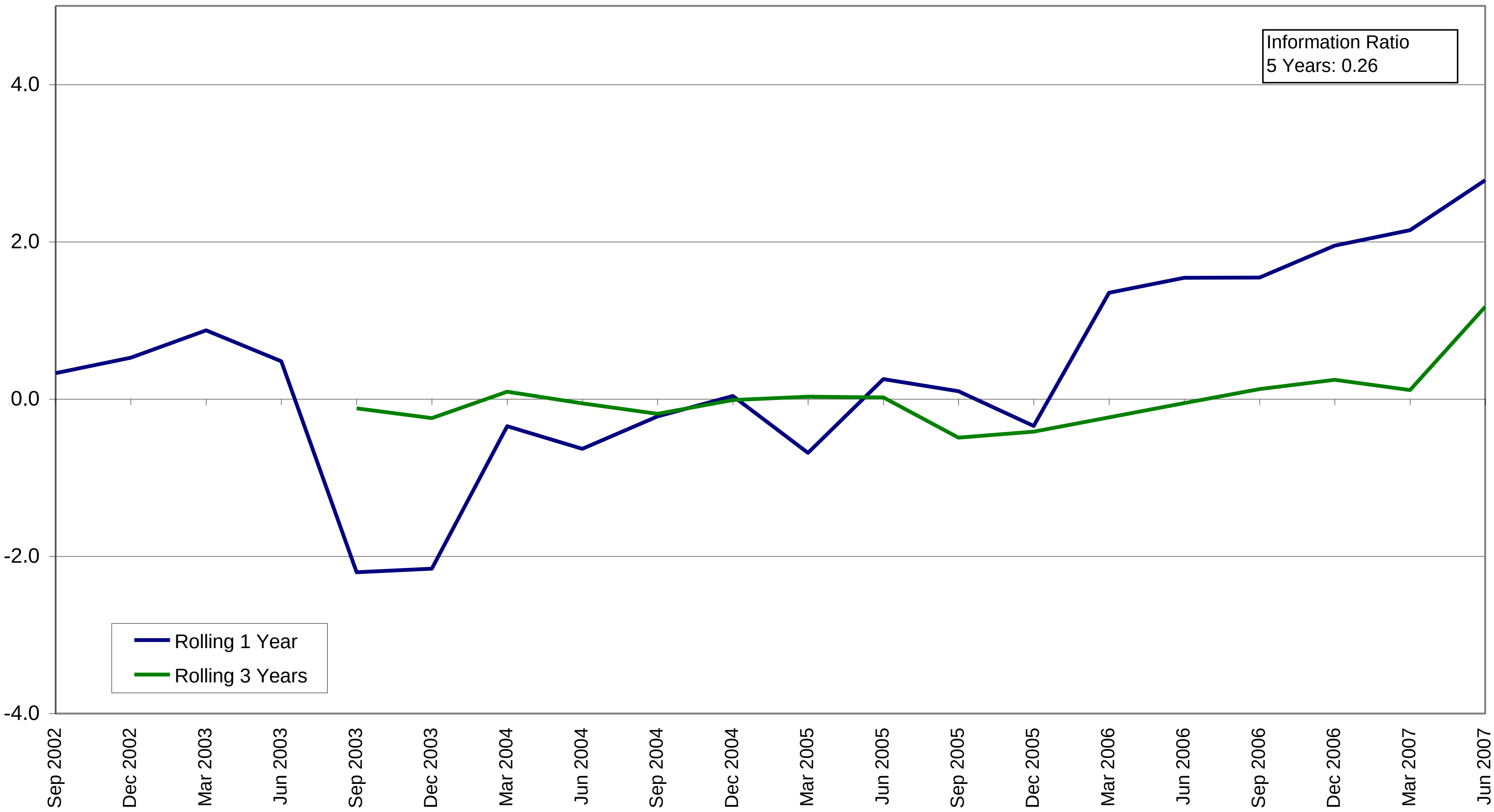
Alpha
F2 Model
For the 5-Year Period Ending June 30, 2007



Calculated quarterly   Inception date 09/30/2000

Information Ratio
F2 Model

For the 5-Year Period Ending June 30, 2007

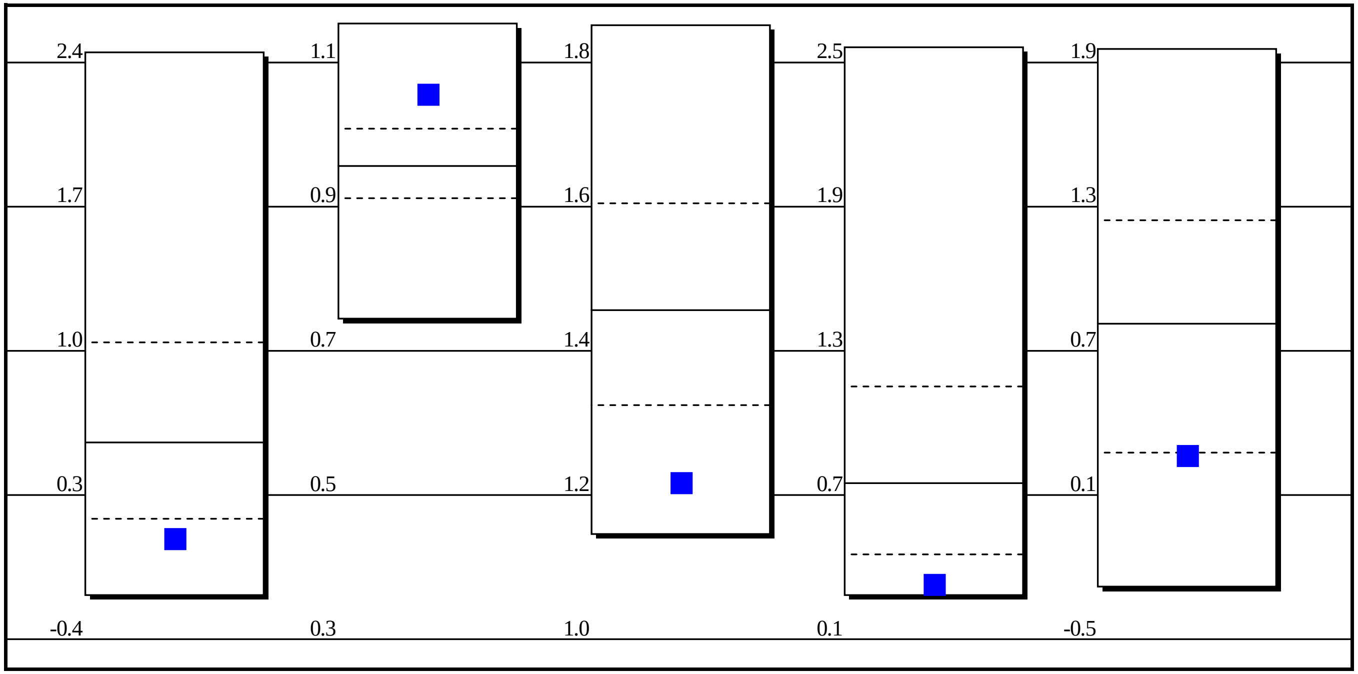


Calculated quarterly Inception date 09/30/2000

Peer Comparison with the Mercer Fixed Core Universe

F2 Model

For the 5-Year Period Ending June 30, 2007

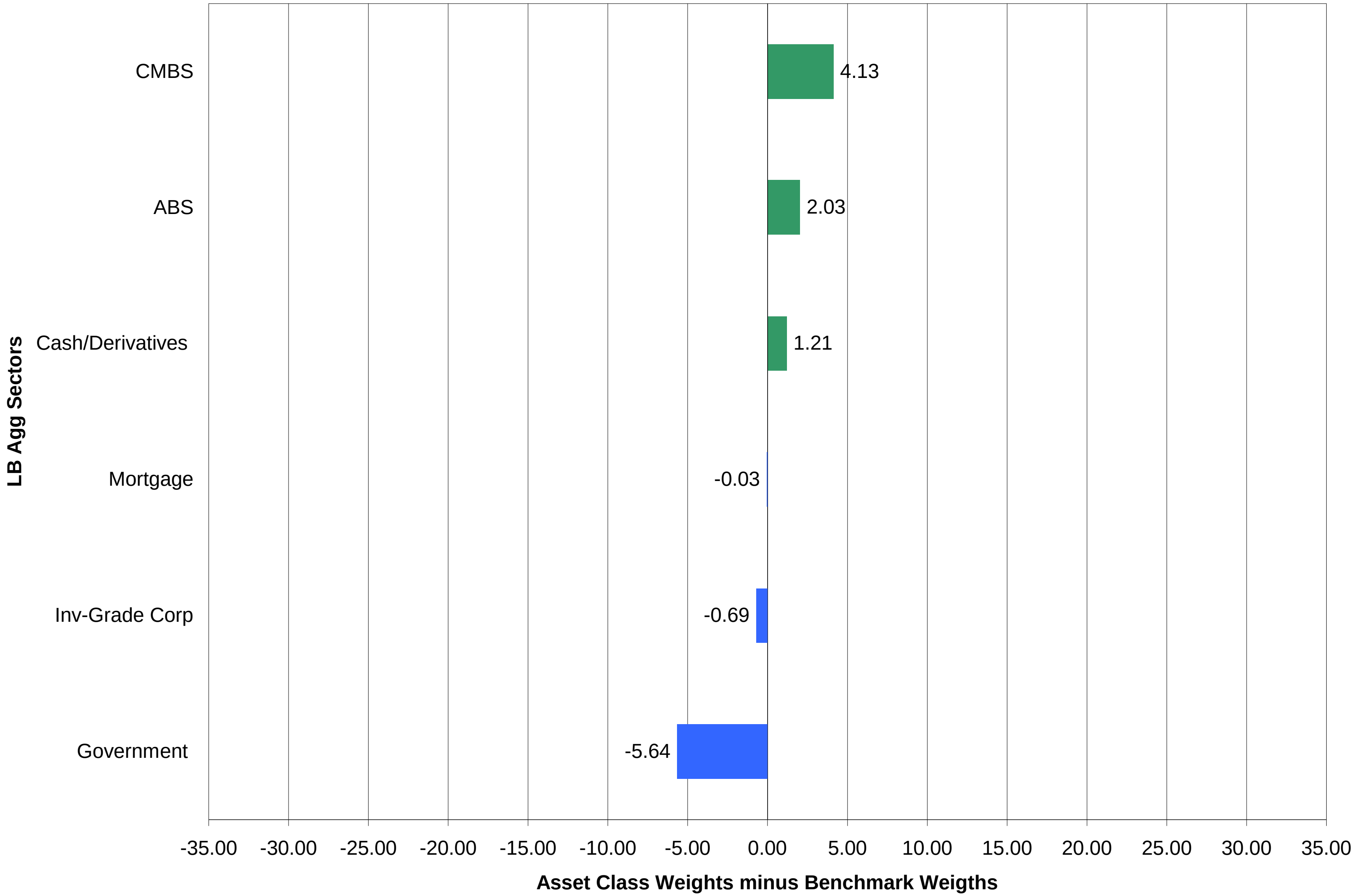


	Excess Return (% pa)	Beta	Reward to Risk	Tracking Error (% pa)	Information Ratio
ASRSF2	0.09 *(82)*	1.05 *(16)*	1.22 *(89)*	0.32 *(91)*	0.26 *(76)*
5th Percentile	2.45	1.15	1.85	2.56	1.95
Upper Quartile	1.04	1.01	1.60	1.15	1.24
Median	0.55	0.96	1.46	0.75	0.81
Lower Quartile	0.18	0.91	1.32	0.45	0.28
95th Percentile	-0.19	0.74	1.14	0.27	-0.29
Number of Funds	226	226	226	226	226

Positions: Portfolio Analysis – Sector Allocation

F2 Model

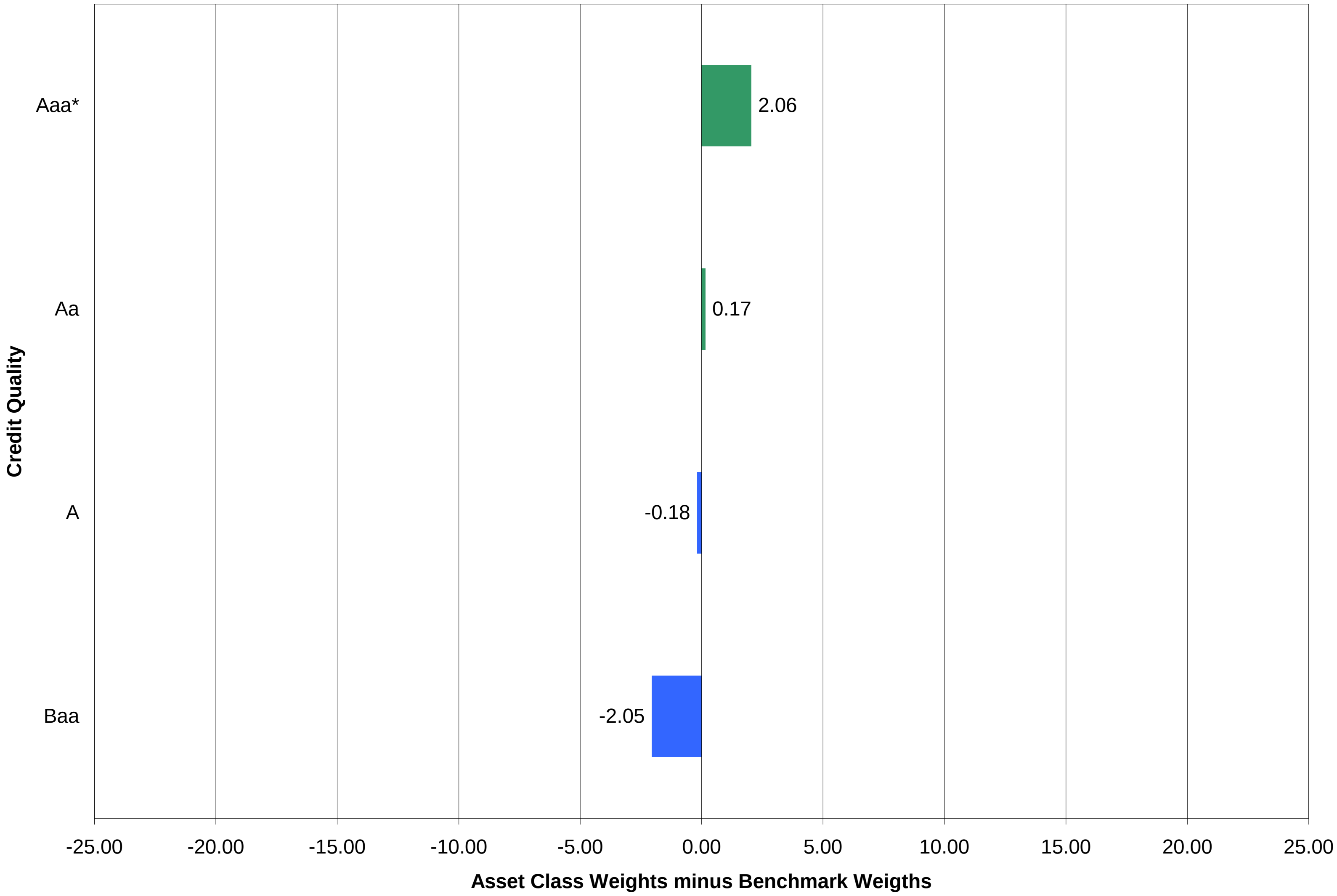
As of June 30, 2007



Positions: Portfolio Analysis – Credit Quality

F2 Model

As of June 30, 2007

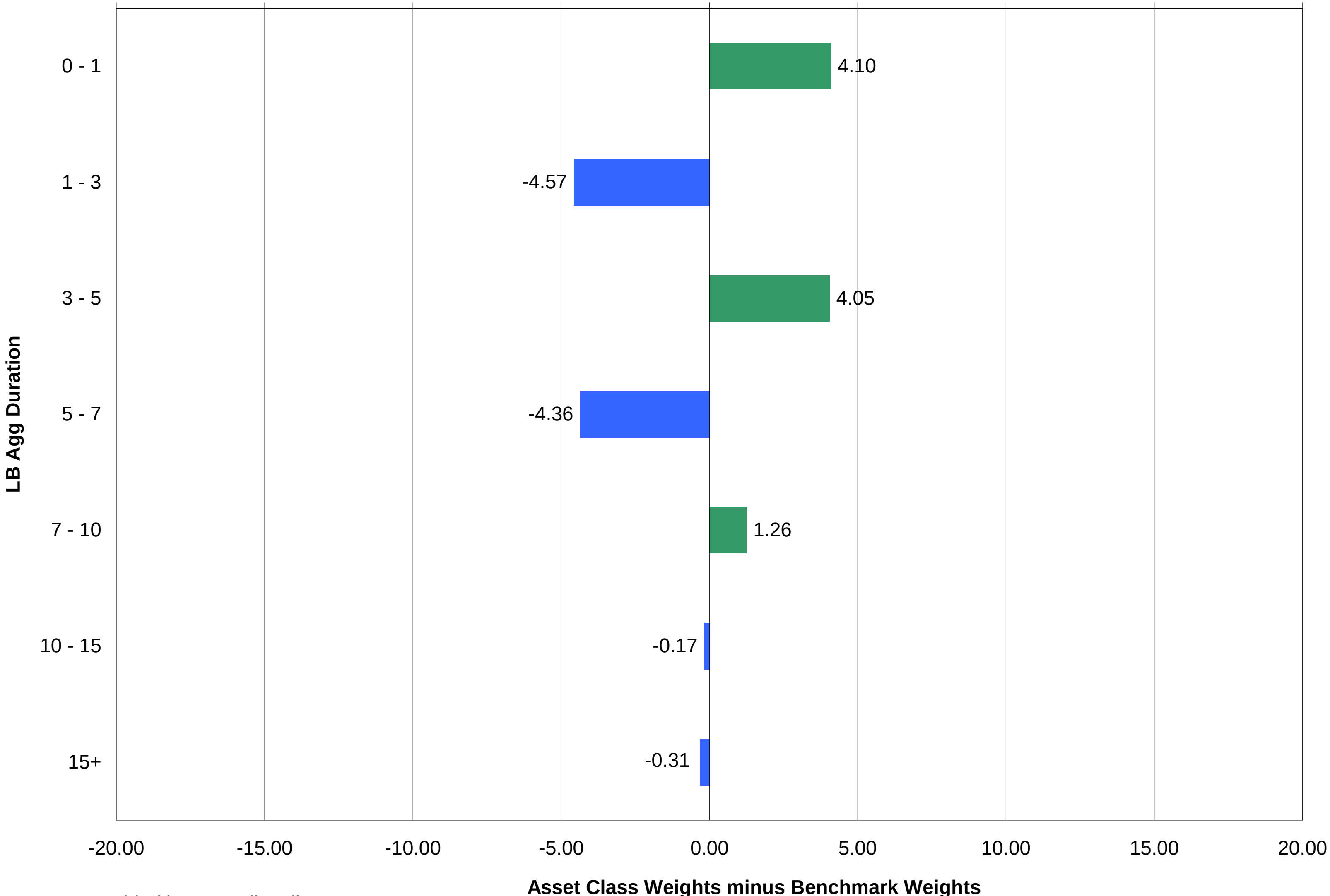


*Aaa includes corporates, governments, Aaa securitized paper, and cash

Positions: Portfolio Analysis – Duration* Breakdown

F2 Model

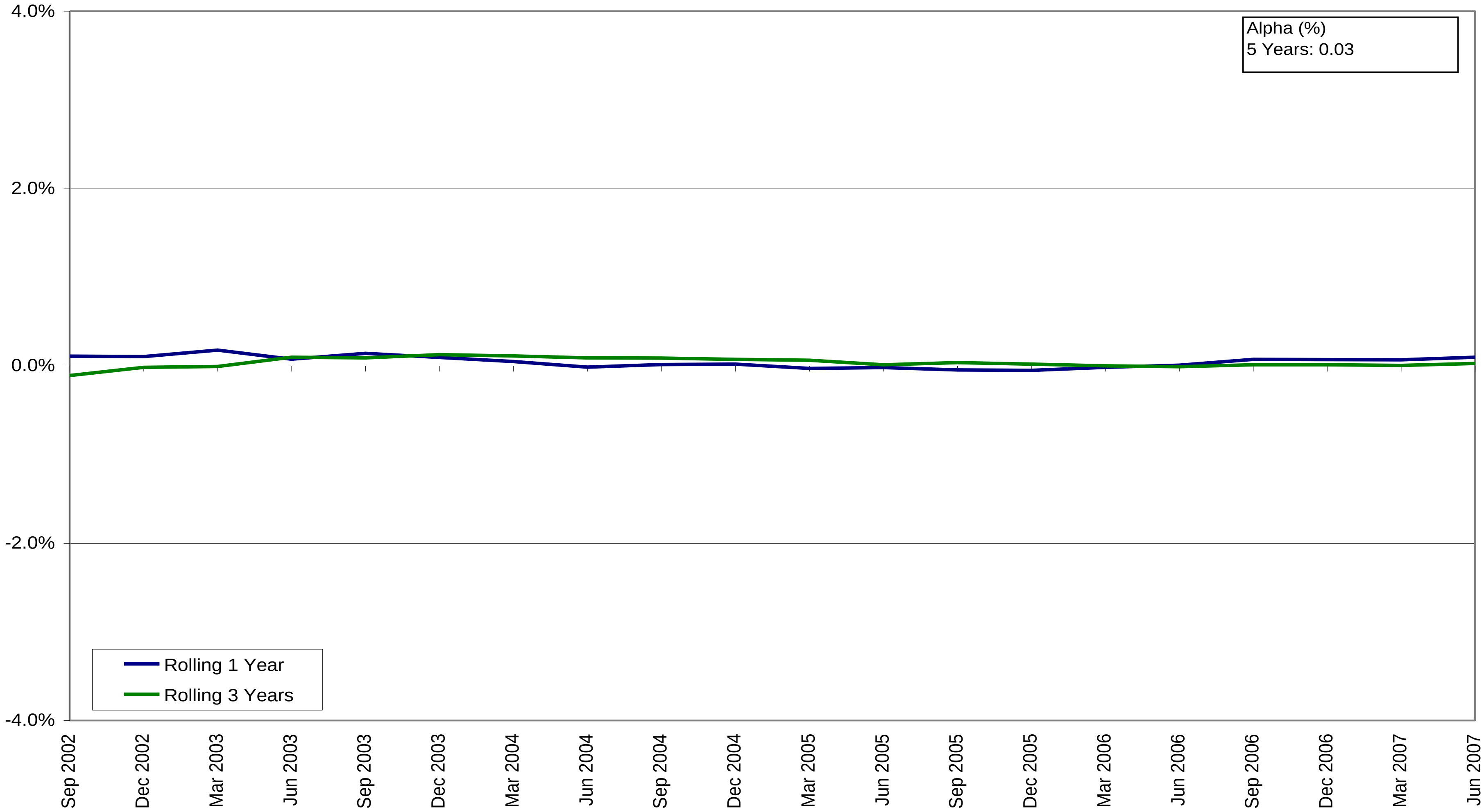
As of June 30, 2007



*Data provided by Russell Mellon

Alpha
BGI

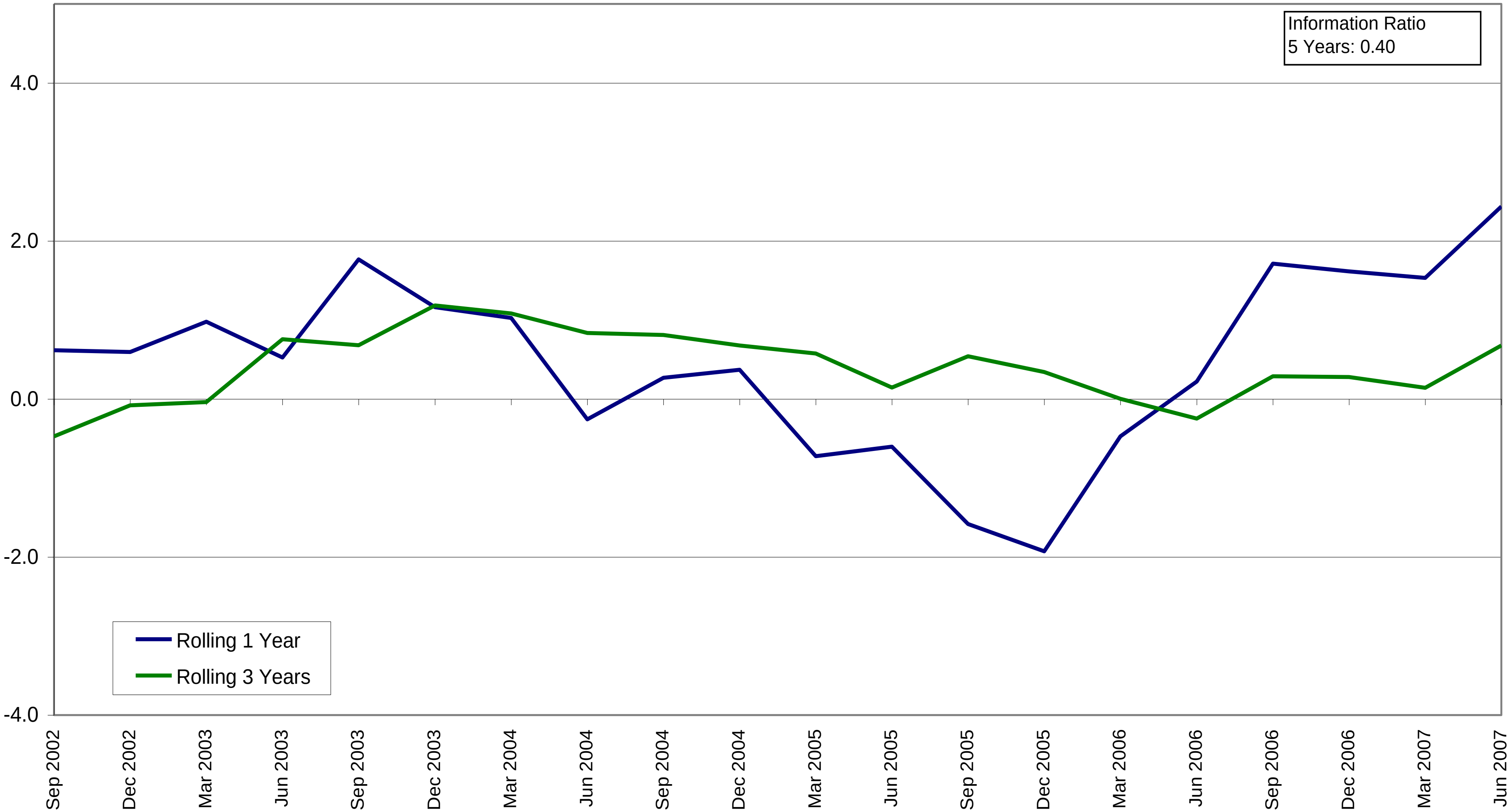
For the 5-Year Period Ending June 30, 2007



Calculated quarterly Inception date 09/08/2004

Information Ratio
BGI

For the 5-Year Period Ending June 30, 2007

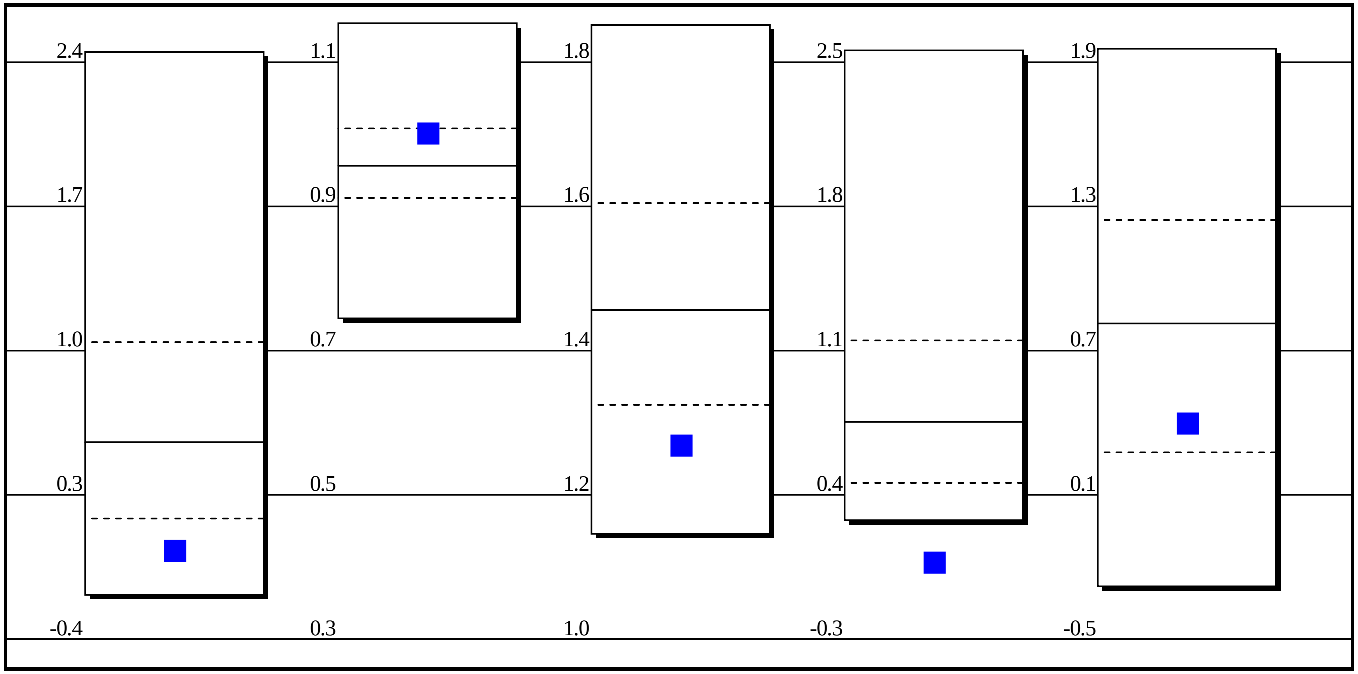


Calculated quarterly   Inception date 09/08/2004

Peer Comparison with the Mercer Fixed Core Universe

BGI

For the 5-Year Period Ending June 30, 2007

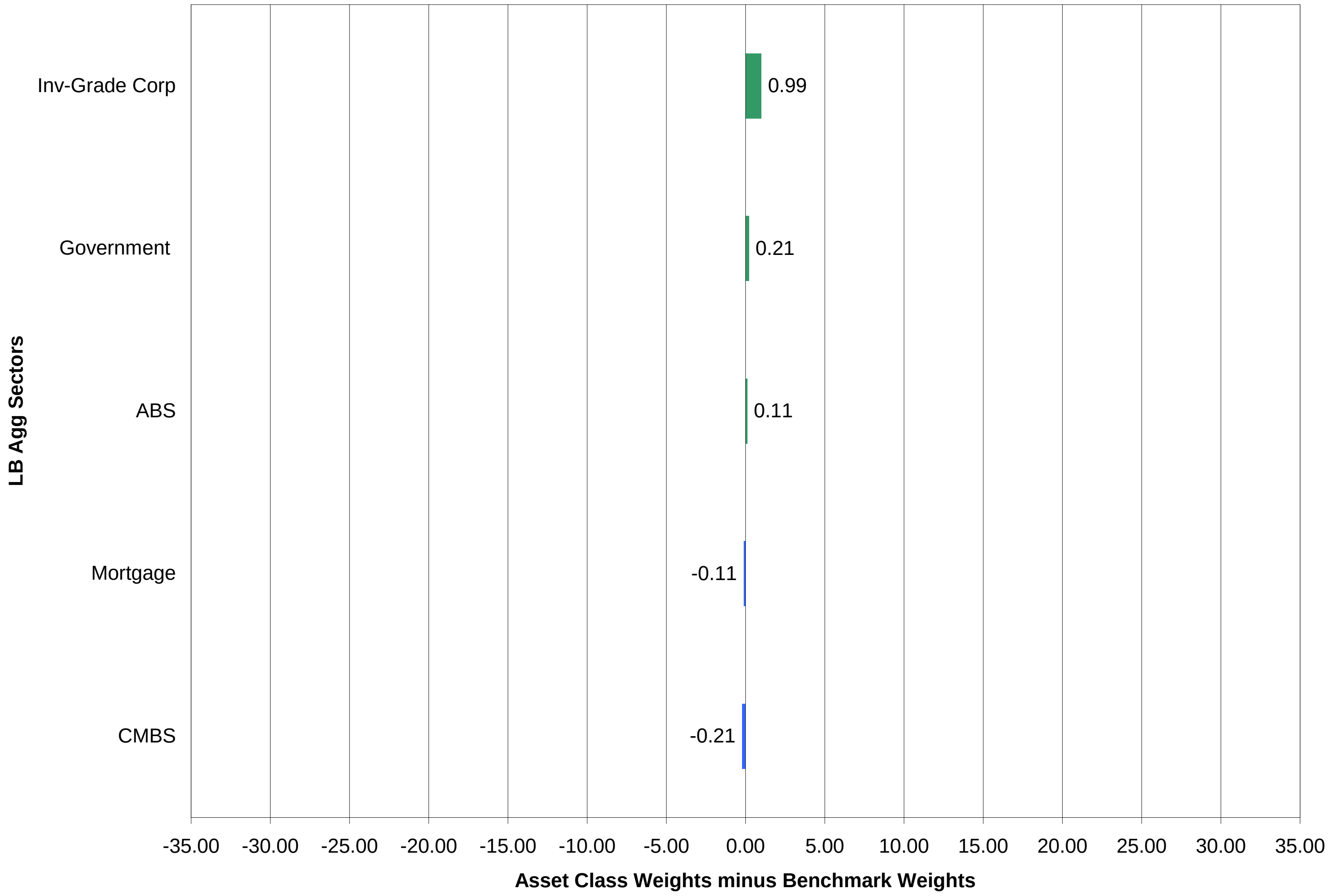


	Excess Return (% pa)	Beta	Reward to Risk	Tracking Error (% pa)	Information Ratio
BGI FI	0.03 *(86)*	1.00 *(29)*	1.27 *(82)*	0.07 *(100)*	0.40 *(72)*
5th Percentile	2.45	1.15	1.85	2.56	1.95
Upper Quartile	1.04	1.01	1.60	1.15	1.24
Median	0.55	0.96	1.46	0.75	0.81
Lower Quartile	0.18	0.91	1.32	0.45	0.28
95th Percentile	-0.19	0.74	1.14	0.27	-0.29
Number of Funds	226	226	226	226	226

Positions: Portfolio Analysis – Sector Allocation

BGI

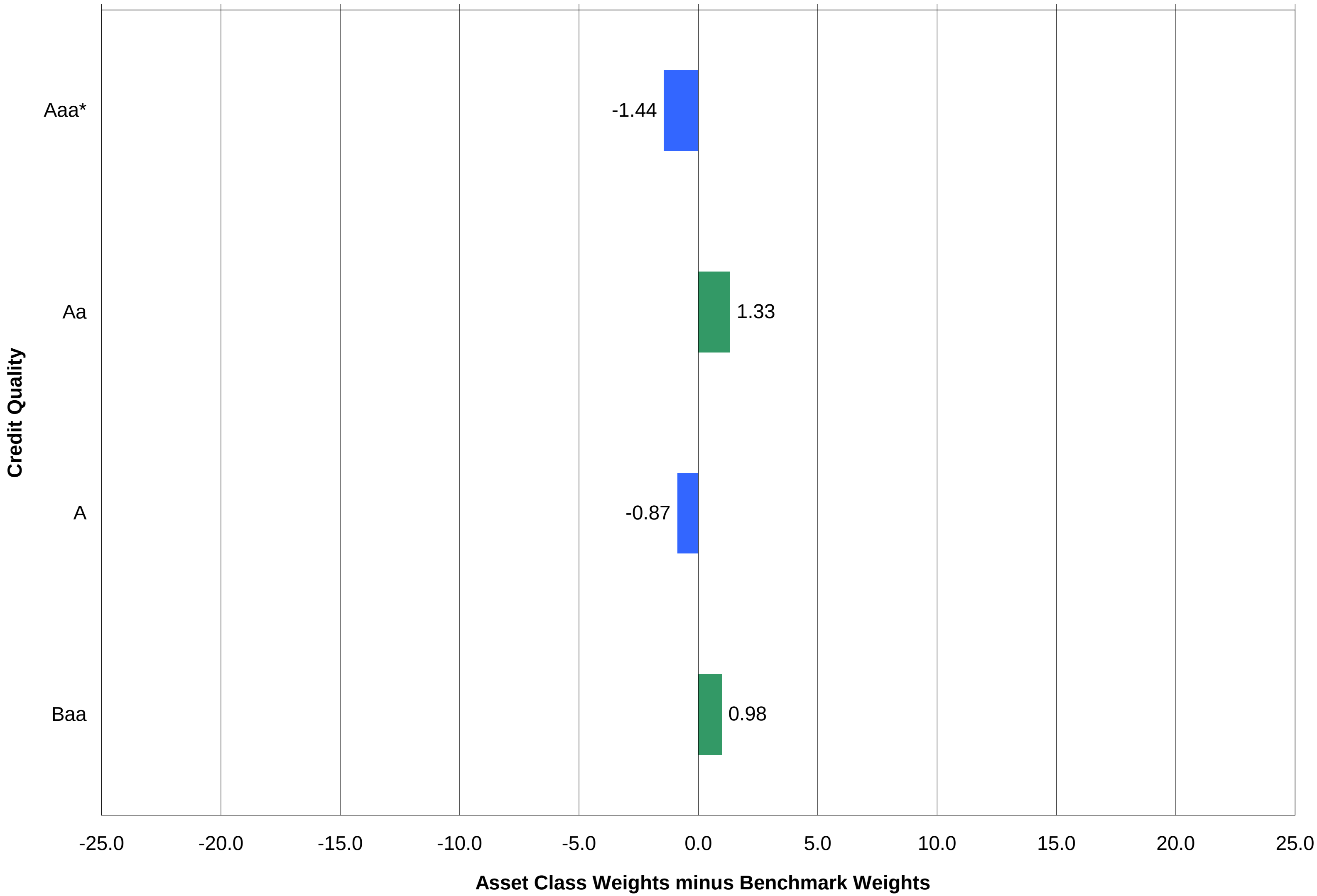
As of June 30, 2007



Positions: Portfolio Analysis – Credit Quality

BGI

As of June 30, 2007



*Aaa includes corporates, governments, Aaa securitized paper, and cash

NOTES

- **The information presented uses data provided by the individual managers as well as the reporting system Mellon Analytical Solutions used by Mercer Investment Consulting**
  - Sector and Quality allocations are provided by the respective managers while duration is provided by Mercer
    - These data are then combined using a weighted average to result in the Total Fixed Income Allocations